State of California

L I T T L E H O O V E R C O M M I S S I O N

June 14, 2005

The Honorable Arnold Schwarzenegger
Governor of California

The Honorable Don Perata
President pro Tempore of the Senate
and members of the Senate

The Honorable Dick Ackerman
Senate Minority Leader

The Honorable Fabian Núñez
Speaker of the Assembly
and members of the Assembly

The Honorable Kevin McCarthy
Assembly Minority Leader

Dear Governor Schwarzenegger and members of the Legislature:

Few jobs are more important than those entrusted to state government. Public employees are responsible for safeguarding food and water, ensuring educational and work opportunities, and responding to the chronic dangers of crime, disease and disasters. And that's just for starters.

In turn, the resources at hand are substantial: A workforce of more than 200,000 women and men. An annual budget of more than $100 billion. And nearly unbridled authority to structure policies, design programs and apply technology to achieve success. Still, on some of the most important outcomes, the State's performance is dismal.

Strong public programs begin with evidence-based and politically supported policies. Implementing those policies, in turn, requires highly skilled administrators – who can work under the spotlight and within the inherent restrictions of government agencies. For many years, however, the State has neglected its management workforce. Calcified personnel practices that were intended to measure "merit" discourage highly qualified people from applying for and landing state jobs. Training and development are afterthoughts. And in the name of fairness, compensation rules do little to distinguish between good and bad performance.

In this study, the Commission examined procedures for hiring, training, managing and rewarding state managers and found a system that is engineered for failure.

To improve performance, the State must hire the best and the brightest. But the entry-level professional position, staff services analyst, is essentially closed off to anyone who is not already in the civil service system. In the last six years, 94 percent of new SSA hires have been drawn from the existing state workforce, often from clerical positions. So rather than recruiting top university grads, the State promotes from classifications that do not require college degrees.

This practice is especially troubling because it is even harder to break into state service at the managerial level. Since 1999, the State has not hired a single manager from outside of state service into its core management classification. Even if accomplished managers from the private sector wanted to do the public's work, they would be discouraged at every turn.

These promotions within the state service are supposed to be based on merit – thwarting favoritism and giving taxpayers their money's worth. But departments routinely invoke transfer rules to fill management positions, circumventing rules intended to ensure that jobs go to the most qualified applicants.

This over-reliance on internal promotion is then undermined by the State's negligence toward training. While other states retooled managers to deal with fiscal and performance crises, California in 2004 ended its partnership with the University of Southern California to improve leadership and mothballed the State Training Center.

Finally, management and compensation practices are not used to motivate achievement. Weak performance is ignored, tolerated and hidden by management systems that do not adequately track inputs or outputs – let alone results. Managerial compensation is not competitive, even with other public sector employers, and does not recognize contribution or accomplishment. One program designed to reward the top 1 percent of employees – those who demonstrate two years of sustained exemplary performance – provides for bonuses of no more than $250.

The State is fortunate to have many committed and qualified managers – people who have dedicated themselves to a career in public service. Overshadowed by the failures, quality administrators deliver quality outcomes: California has one of the nation's lowest rates of infant mortality. The State has the best record in the country for reducing youth and adult smoking. And despite a growing population and more vehicles on our roadways, air quality is improving.

Many of the best managers enlisted when California was a stand-out in public administration. They wanted to change the world and California government was the vanguard. But in recent years, the State has seldom been recognized for outstanding public management. The same high-profile failures that drive down public confidence drive away prospective managers. The State's inability to balance the budget, keep the lights on, build bridges, teach children and operate prisons is a warning sign to those interested in public service: go elsewhere.

Simply put, solving these problems will require knowledge, skills and leadership in both policy-making and program administration. Toward that end, this report contains recommendations that could begin to immediately improve the ability of state departments to recruit, hire, develop, manage and compensate the administrators that California needs and Californians deserve. All of these recommendations are standard practice in some other public sector organization. Most of the proposals do not require significant fiscal investments, but all of them could contribute to a State that is more effective, and thus more efficient.

To break the cycle of failure, the State must enlist talented individuals capable of restoring California's greatness. These recommendations provide a starting point for that imperative.

Sincerely,

Michael E. Alpert
Chairman

Serving the Public:

Managing the State Workforce to Improve Outcomes

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Executive Summary

California built a world-class educational system that spawned the technology revolution. Now the State must fortify that system to prepare all Californians for a global and information-based economy – and position California to lead in nanotechnology, biotechnology and frontiers beyond the horizon.

The State built a world-class highway system that serves nearly 37 million people. Now it must rethink transportation to move more than 50 million people and their commerce around the state and across the globe.

California led the nation in demanding energy efficiency and environmental excellence. And now it has ambitions to transform the use of energy, create innovative land use patterns, restore habitat and revitalize communities.

These are just some of the challenges facing the State of California. The State also cannot retreat from its war against poverty and addiction, or its efforts to ensure public safety and correct the prison system.

Success will require highly skilled leaders – men and women who in the California tradition want to make history. But the State does little to attract, develop and deploy the management talent needed to effectively lead essential public programs. Moreover, the State's high-profile failures actively discourage talented people from even considering public service.

The Commission has reviewed dozens of state programs and documented the high costs and bad outcomes. Political and fiscal gridlock are partly to blame. But quality outcomes also are consistently compromised by insufficient leadership, weak management and inadequate training. The State will simply not be able to respond to the essential challenges of the 21st century without fundamentally improving its personnel system, and the management system in particular.

California's Workforce
(Executive Branch Only)

The State workforce represents a tremendous potential to address public needs.

Total employees:	212,031
Management workforce	31,017
Political appointees	3,370
C.E.A.s	1,224
Managers	2,813
Supervisors	23,610
Total annual state payroll (including estimated benefits)	$13.7 billion
Weekly work hours of state employees	8.5 million

Note: 2003-04 figures. Sources: State Personnel Board. Governor's 2003-04 and 2005-06 Budgets.

Government is a people business. High quality managers matter.

Whether policy is made in the Capitol or at the ballot box, successful implementation depends on skilled administrators. Passing bills and enacting budgets will not improve performance if the State also does not have skillful administrators who understand the goals to be achieved, are adept at using the tools of government and value success. But policy-makers have not even begun to focus on the personnel reforms needed to break the cycle of failure that has so shaken the public trust in state government.

To initiate reforms, the Governor and Legislature must provide leadership.

Both the executive and legislative branches must support efforts to improve the management of public programs. The Governor can initiate efforts to recruit, select and develop managers, and he can champion management reforms to improve performance and accountability. The Legislature must encourage reforms by supporting their implementation and providing sufficient discretion to allow managers to manage, while setting clear goals and monitoring outcomes.

Beyond the rules, the "culture" of public service also must be reformed.

Changing rules and procedures can pave the way for ongoing and strategic improvements. But the State cannot ignore the popular perception that mediocrity is "good enough for government work." This perception influences who applies for jobs, how work gets done and whether improvements are made. State leaders must work with unions and employee organizations to reinvigorate the culture of public service to attract and motivate state employees to consistently provide high quality services with great efficiency.

State government plays a vital role in the lives of all Californians and many state programs are exemplary. But the public perception of all state programs is diminished by persistently poor service in some critical areas. California's network of first responders is recognized for its professionalism and competency. But the public is more likely to recognize poor service at the Department of Motor Vehicles. California leads the nation in curtailing teen smoking. But the educational system persistently fails many students. The State has excelled in getting children into car seats and adults to wear seat belts. And the State has achieved one of the lowest infant mortality rates in the nation. But the public hears more about the failings of the correctional system.

Each stumble – each failure – compromises public confidence and undermines support for needed investments in essential public programs. The State must bolster performance, improve outcomes and lower costs.

In this report, the Commission examined the State's management workforce and strategies to build a corps of high-performing managers. Developing that corps in state government is essential to achieving systemic improvements. Reforms are needed in three areas:

Building a team of skilled managers. To translate policy into outcomes, the State must have a cadre of managers who can overcome obstacles to improve outcomes. Putting that team in place will require changes in how managers are recruited, hired and trained.

Managing for outcomes. Management practices must be goal-oriented, enable progress and monitor outcomes. Performance-oriented management will require changes in personnel practices, budgeting and oversight.

Rewarding for performance. Compensation must be strategic, tailored and part of an overall effort to re-craft the nature of public service. Public compensation can be competitive, rewarding and affordable to the taxpayers of California.

Many of these recommendations do not require statutory changes or additional funding. Several recommendations reflect strategies already in place in select departments or programs. But the Governor and Legislature should promote systemic improvements, and where necessary, lower the barriers to achieving excellence throughout state government.

The challenges to California's management reforms are significant and past efforts at civil service reform have faltered. But the federal government and numerous states have made personnel reforms a priority. Their experiences suggest that reforms – while difficult – are worth pursuit. And now California – starting with its management system – must make personnel reforms a priority.

Building the Team

California's personnel system is not designed or operated to ensure that state departments have in place the most skilled and effective managers. State rules encourage the promotion of existing staff into management positions, but the State does not have a management track or training initiative to ensure new managers have the skills to succeed. Of equal importance, the State has not promoted a culture of public service that could encourage a high-performing workforce.

To build a robust, high-caliber management team, the State must address five core problems:

Problem #1: Flawed hiring procedures thwart efforts to bring the best candidates into state service.

Over the next decade, the State will lose a significant portion of its veteran managers, providing a tremendous opportunity to build a team of talented, ambitious and experienced managers. But under existing practices, experienced managers from other public agencies and the private sector cannot compete for most management openings. And to avoid costly and time-consuming examination procedures, departments often avoid looking outside of even their own departments for management candidates. As a result, many skilled managers cannot even apply, and at best, positions go to the most qualified in-house candidate. Even when used as designed, the selection procedures are flawed; often failing to test a candidate's capacity to perform the required work. It is possible, however, to redesign selection procedures to make them efficient, open and accurate.

> ***Public service is not public***
>
> Getting into state service is hard for recent college graduates. Of 7,600 staff service analysts hired between 1999 and 2004, 94 percent were promoted from other state positions.
>
> Getting into state service is even harder for experienced managers. Out of 2,600 new hires into the core management classification since 1999, not a single job went to a manager from outside of state service.
>
> Source: State Personnel Board.

Solution #1: The State must improve its hiring procedures to bring into state service the most skilled management candidates. The administration should:

- ***Identify management skills***. To be successful, departments must determine the skills that managers need to improve outcomes and use those competencies to select, develop and manage the managers. The State should incorporate into the hiring process the core competencies used by the federal senior executive service.
- ***Establish performance exams***. The State should develop efficient mechanisms for merit-based selection and explore the use of short-term contracts as an assessment tool prior to offering permanent civil service positions.
- ***Open the hiring process***. Hiring procedures should not discriminate against non-state employees. The State Personnel Board should re-craft selection rules to expand applicant pools, reduce costs and improve the recruitment of mid-career and other management candidates into state service.
- ***Tap top graduates from California's colleges and universities***. The State should reform exam rules so that top-tier baccalaureate graduates are automatically eligible for entry-level professional jobs such as Staff Services Analyst.
- ***Establish performance measures for the personnel system***. The Department of Personnel Administration and the State Personnel Board, in consultation with human resource professionals, should adopt and report performance measures that reflect the accessibility,

clarity and reliability of the personnel system in bringing gifted managers into state service.

Problem #2: Poor public perception and a lack of recruiting keep the best and brightest from considering a career in public service.

> **Hiring pools are shallow**
>
> In 2003-04, managers were selected from hiring pools with an average of just 13 eligible candidates.
>
> In 11 instances, departments hired from a candidate list that included just one qualified applicant.
>
> Source: State Personnel Board.

Even if the State improves selection procedures, it must also expand the applicant pools for management jobs, and doing so will require changing how people view the State. The State does not recruit high-caliber managers; it advertises openings and hires from a list of those minimally qualified. In turn, potential employees are largely unaware of the value of state service and the real opportunities to contribute through public service to the well-being of Californians. The "culture" of public service has devolved from an asset to a liability. In reviewing the operations of individual departments, the Commission has recognized that the culture of state operations must change – in the Department of Corrections, for instance – if public agencies are going to recruit the best and improve outcomes.

Solution #2: To attract talented managers, the Governor should initiate a campaign to reinvigorate public service. The campaign should address two core issues:

- ***Establish a unifying vision of public service***. The Governor must reinvigorate public service as a noble commitment to improve the quality of life of all Californians. The vision for public service should be embedded in the mission of state agencies, public policy and agency practices.
- ***Document the State's contributions to quality of life.*** Each state agency should document its contributions to the people of California – providing clear information on the work they do and its value to Californians.

Problem #3: The State's management structure thwarts efforts to develop promising and proven managers.

The federal government and other states have built career ladders to hone the skills of promising managers and prepare them to assume new responsibilities. But California has not. The State's merit and classification system, intended to identify the most qualified applicants and prevent favoritism, requires top university graduates to meet minimum qualifications and pass an exam before they can be considered for entry-level professional positions. But clerical staff already in state service can transfer into those positions – based solely on comparable salaries – without meeting minimum educational or experience requirements or undergoing comparable review. Similarly, the State does not have a process to teach experienced managers from the private sector the unique requirements of public sector management.

Solution #3: The State must reform its management structure and actively develop stellar managers.

- ***Reform the classification system.*** The Department of Personnel Administration and the State Personnel Board should reform job classifications – and the rules governing transfers – to ensure that state employees have appropriate opportunities for upward mobility and that all hires are based on competency rather than comparable salaries.
- ***Establish a fast-track management development program.*** To develop promising employees into potential managers, the Governor should appoint an innovative leader to conceive, design and implement a management development initiative. Participation in the program should be highly competitive and open to employees from Staff Services Analysts to those in Career Executive Assignments. Participants should receive enhanced training, mentoring, and rigorous performance evaluation. Participating employees should be excluded from collective bargaining, subject to performance management and benefit from performance compensation.
- ***Establish a Governor's mid-career management fellowship.*** The one- to two-year fellowship should be highly competitive and open to experienced managers from outside of state government who want to serve the public. The fellowship should provide participants with sufficient background in public sector budgeting, personnel, public process and public service to allow them to successfully lead a state program or department. Successful participants should be eligible for state management positions without further testing.
- ***Establish a student career experience program.*** The State should establish a program that provides work opportunities for highly skilled college students interested in temporary employment or transition into civil service positions. Modeled after federal programs, participation should be competitive and include performance evaluations. Successful participants should be eligible for state positions consistent with their internship responsibilities without further testing or review.

Problem #4: The State fails to invest in training to improve the skills of its managers.

California lacks a management training initiative that could ensure managers are well-versed in the skills needed to meet changing and expanding challenges. With limited exceptions, training is discretionary and few departments invest in building the skills of their management corps. Other states and the federal government have incorporated training in their strategies for dealing with changing economies and difficult fiscal times, but California has cut training resources and shuttered the State Training Center.

PA's Training Continuum

Pennsylvania has a five-tier leadership development initiative serving employees in pre-supervisory positions through to senior executives. The initiative includes support for ongoing training at premier graduate schools and a Governor's Executive Symposia on leadership challenges.

Source: Commonwealth of Pennsylvania.

Solution #4: To improve outcomes, the State needs to make a commitment to management training and develop the capacity to train managers and leaders.

- ***Invest in management and leadership development.*** The State should establish a continuum for leadership and management development, starting with training for management trainees and capped by a strategic executive academy.
- ***Build training costs into allocations for positions.*** The State should incorporate in the budgets for individual positions the total costs of employee compensation, as well as professional development and training. Departments should be allowed to carry a limited surplus from year-to-year for training.
- ***Document value of training.*** As part of the budget process, departments should document training expenditures and the results of training investments to ensure its efficacy in improving public outcomes.

Problem #5: Departments do not know which skills their employees possess and which additional skills are required to meet public needs.

As governments change the way they do business, and calls for services increase, new demands are placed on the public workforce. Periodic assessments of the workforce – how it is organized, span of control and the needed mix of skills and abilities – can reveal deficiencies in recruitment, training and professional development. These assessments also can guide personnel decisions to better align the skills of public servants with the need for public services.

Solution #5: Each state agency should engage in workforce planning.

- ***Require workforce plans***. To better meet current needs and prepare for future needs, each agency should document needed skills, inventory existing skills and develop strategies to address gaps.

Building the Team

To build its team of capable managers, the State must address the problems that impede its ability to recruit, hire, and train outstanding managers. But to sustain that team over time, the State also must appoint a leader, establish a supportive structure, and address the culture of state employment.

- **Assigning a leader.** The Governor should designate a single leader for personnel management, including workforce planning, recruiting, hiring, career development, compensation, and retirement functions. That leader should improve existing personnel strategies, champion new approaches and identify the policy, funding and regulatory changes needed for long-term improvement.
- **Creating a structure.** The Governor should appoint an advisory council of human resource experts from the public and private sectors to guide the State's efforts to build and manage its workforce.
- **Enhancing a culture of public service.** The Governor, cabinet secretaries and department directors can refashion the culture of public service by highlighting the essential nature of state service, publicly valuing the contributions of the state's workforce and recognizing the accomplishments of state programs.

Managing the Team

Putting the right people in place is the first step to improving public outcomes. But the State also must ensure that managers have the tools, authority and incentives to improve state operations. Each department must be clear on what it is trying to accomplish and managers need to understand how their work contributes to public outcomes. They need to understand what is being accomplished now and what improvements are needed. And they must have the authority to leverage people, funding and technology to engineer improvements.

To put in place a performance management system, the State must address four explicit challenges:

Problem #6: Departments have not articulated clear goals to guide decision-making, inspire employees and focus attention on outcomes.

Department of Education

All employees must understand how their work supports the department's mission: creating a dynamic, world-class education system that equips all students with the knowledge and skills to excel in college and careers, as parents and citizens.

Few departments have clear strategic plans that outline goals, how they will be achieved and who is responsible for outcomes. And those that do have not consistently translated those goals into clear direction for each manager and employee. As a result, it is difficult to hold departments accountable for failure, reward them for success or invest in making improvements. In turn, the public and policy-makers are uncertain what changes are needed or where best to focus reforms.

Solution #6: The State must renew its commitment to planning strategically, defining goals, clarifying roles and setting priorities.

- ***Departments should undertake a strategic planning process.*** Planning should involve employees, clients and other stakeholders to define goals, clarify roles, develop performance measures and assess workforce, funding and technology needs.
- ***Planning should address crosscutting goals.*** Each cabinet agency should ensure that department strategic plans address crosscutting goals that involve multiple departments, such as reducing crime, expanding access to affordable health care, protecting the environment and ensuring sufficient, affordable energy to meet needs.
- ***Strategic plans should include program goals for individual managers.*** The process should provide managers with clear information on priorities, initial strategies for success, and the specific programs and goals for which they are individually responsible and accountable.

Problem #7: Departments are not gathering or using performance information to guide management decisions and direct reforms.

The State awards millions of dollars in crime prevention grants each year, but does not track which grants result in reduced crime and violence. The State requires hospitals to report certain diseases and conditions that threaten public health. But just 20 percent of cases that must be reported are actually reported, limiting the ability to reduce preventable illnesses and death.[1] And each year the State invests nearly half a billion dollars in drug treatment programs, but fails to track which providers offer the greatest potential for recovery. Performance monitoring – paired with state-of-the-art information on what works and what does not – would allow public agencies to dramatically improve outcomes and lower costs. But failure to monitor performance or respond appropriately can impose additional costs, delay benefits and deny people effective services.

> ***Community College Performance***
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> The State collects detailed data on community college students, including whether they complete coursework. But performance data are not used to shape reforms and improve outcomes. Between 1998 and 2004, student retention has hovered between 81 and 83 percent, indicating that students fail to complete about one-in-five courses. But that information has not lead to reforms to improve retention.
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> Source: Community Colleges Chancellor's Office.

Solution #7: The State must make a commitment to performance management.

- ***Departments should identify the public outcomes they will promote.*** Consistent with strategic planning, departments should establish outcomes that reflect their mission. Outcomes should be meaningful to the public and policy-makers and provide employees with guidance on department priorities.

- ***Departments should identify the programs needed to achieve those outcomes.*** Consistent with strategic planning, departments should link outcomes to specific programs or projects. Managers must be able to see the nexus between their daily work and desired outcomes.
- ***Departments should identify measures for monitoring progress.*** Measures should be designed to provide managers, employees, the public and policy-makers with clear information on whether progress toward goals is being made, where improvements are needed and how to proceed.

Problem #8: Managers do not have the tools needed to improve outcomes.

In addition to performance measures, improvements often will require changes in the deployment of people, funding or technology. State employees contribute 8.5 million work-hours each week. The State spends the equivalent of just under $2 billion each week. And new technologies – new ways of doing things – are developed almost daily. But without sufficient authority to change how the State's work gets done, these resources cannot be used to improve outcomes.

Solution #8: Managers must be given the authority and responsibility to manage.

- ***Departments need discretion in the deployment of personnel.*** The administration should assign a personnel leader to identify needed reforms to enhance the capacity of departments to assign, reassign, train, mentor, discipline and promote managers and rank-and-file workers to better meet policy goals.

> ***Redeploying Managers***
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> To ensure the efficient deployment of managers, departments should periodically assess and refine their management ranks, ratios of managers to employees and distribution of authority. The State's personnel leader should advise departments on how best to undertake these reviews and provide assistance to overcome obstacles to success.

- ***Managers must make better use of technology to achieve policy goals.*** Partnering with personnel and financial management leaders, the State CIO should identify and champion reforms that would give managers improved capacity to leverage technology to improve the efficiency and effectiveness of state operations and improve public outcomes.
- ***Managers must have improved authority to manage limited public funds.*** The director of the Department of Finance should identify state-of-the-art tools to manage public finances and develop and champion reforms that would enhance the ability of managers to apply those funds in ways that produce improved outcomes.
- ***Limit the impact of collective bargaining on management capacity.*** Collective bargaining should not unduly restrict management

capacity. Proposed collective bargaining agreements should be subject to independent analysis and available for public comment.

Problem #9: Oversight and accountability mechanisms push compliance and ignore outcomes.

In the absence of clear goals and performance measures, policy-makers and oversight agencies cannot assess performance. Instead, they focus on whether managers follow the rules, adhere to procedures and continue traditions. To make full use of goals and performance information, policy-makers and oversight agencies must shift their attention away from rule compliance and toward outcomes.

Solution #9: Oversight activities should focus on outcomes, not compliance with rules.

- ***Policy-makers should focus on the outcomes that are expected.*** Budget hearings, legislative briefings and policy discussions should be predicated on desired outcomes, performance measures and the progress to be expected.
- ***Control agencies should rely on strategic plans.*** The Department of Finance and other control agencies should review budget, personnel and policy proposals in the context of departmental goals and strategic plans.
- ***The Department of Personnel Administration should guide the reinvention of employee performance reviews.*** In consultation with employee organizations, the department should improve the strategy for assessing employee performance. The strategy should provide rank-and-file workers and managers with clear information on how employee performance is linked to public goals and how improvements can be achieved.

Managing the Team

To manage its team of capable managers, the State will need to put in place a system that recognizes goals, provides management tools and values performance. But to ensure that California's management team improves immediately and over time, the administration also must put in place a leader and a structure to guide improvements, and develop a culture that values performance.

- **Enabling leadership.** The Governor and Legislature should charge the State's personnel leader with implementing a performance management initiative and bolstering the quality of management throughout the administration.
- **Promoting a structure for cooperation.** The Governor should establish a labor-management workgroup to provide a healthy and honest forum for driving and monitoring improvements and preventing and resolving conflicts.
- **Elevating the culture of public service.** To re-craft the culture of public service, the Governor, cabinet secretaries and department directors must publicly and consistently declare the goals to be achieved through state programs, the progress being made and the accomplishments of public servants.

Rewarding the Team

California's compensation system is designed to recruit people early in their careers, retain them when they are most productive and reward their longevity. But policies and practices that benefit the majority of the workforce fail to support the State's ability to bring in the most qualified managers, reward short-term contributions and recognize excellence. To attract the best and the brightest, leverage their potential, and promote ongoing improvement, management compensation must be redesigned.

Problem #10: Management compensation is not competitive, hindering efforts to hire and retain the best and brightest managers.

The State's Competition

County governments often pay senior managers more than is offered by the State, for far fewer responsibilities. And federal executives in Sacramento earn between $107,550 and $162,000. In comparison, state employees serving as CEAs, a comparable class, earn between $69,216 and $117,960.

Sources: U.S. Office of Personnel Management. Department of Personnel Administration.

Local, federal and regional agencies offer more lucrative pay, comparable benefits and often greater opportunities for success than the State. Sacramento County pays its director of social services 31 percent more than the director of the state Department of Social Services.[2] The county director of the Department of General Services earns just 2 percent less than his state counterpart, but manages a budget and staff that are one-sixth the size.[3] And private sector pay can far exceed state pay. For the highest paid managers, private sector compensation surpasses public sector compensation by over 40 percent.[4]

Solution #10: The Governor and Legislature should ensure the State provides competitive compensation that attracts, retains and rewards managers and executives of national caliber.

- ***Develop competitive pay packages.*** Tapping federal efforts, the State should ensure that total management compensation, including retirement benefits, is comparable with the private sector, the federal government and local governments for each rung of the State's management ladder.
- ***Enhance compensation for senior executives.*** Pending the development and implementation of compensation reforms, the Department of Personnel Administration should explore alternative strategies to increase executive compensation, including tapping foundations or other sources of funding to ensure the State can attract national caliber executives.

Problem #11: Compensation rules are rigid and options limited, preventing the State from tailoring compensation packages to motivate improvement.

The State's compensation system is one-size-fits-all. Managers are compensated based on how well rank-and-file unions perform at the bargaining table. And some managers earn less than their subordinates. As a result, some workers elect not to enter management ranks despite their potential contributions. But compensation can be tailored, allowing the State to leverage the value of release time, additional salary, training or other offerings that would better compensate and motivate state employees. A dynamic compensation strategy might offer subsidized child care or tuition credit at state colleges and universities to parents, paid sabbaticals to senior professionals who could use the time to share their knowledge with peers or hone their skills. High performing organizations recognize the diverse needs of their employees and deploy a range of compensation opportunities that appeal to different individuals.

Solution #11: To motivate improvements and attract a strong management team, the State's compensation system for managers and executives should be transformed into a flexible and innovative strategy that aids recruitment, retention and performance.

- ***Promote tailored compensation***. The administration should periodically survey employees on their needs and interests and develop reforms leading to tailored compensation packages for individual managers.

Problem #12: The State's compensation system fails to recognize performance.

Compensation is a powerful tool to motivate performance. But the State does not use compensation to promote improvement and recognize excellence. Merit awards intended to recognize maturing skill levels are routinely granted; 99 percent of state workers receive merit raises on a regular basis. And performance awards go unused, unpublicized or are so small as to be insignificant.[5] The Sustained Superior Accomplishment Award is intended to recognize the contributions of the top 1 percent of managers. The very best managers who contribute sustained superior job performance over a two-year period are eligible for a certificate and a cash award of no more than $250. Compensation that recognizes top performance motivates top performance.[6]

Solution #12: The State should craft and adopt a performance compensation strategy for managers and executives.

- ❑ ***Develop a performance compensation strategy.*** DPA, in consultation with state employees, other departments and the Legislature, should develop a compensation strategy that recognizes performance and supports improved public outcomes.
- ❑ ***Require performance contracts.*** All managers, including exempt appointees, should be hired under limited-term performance contracts that outline goals, establish performance metrics and include provisions for termination. Performance contracts should be phased in, beginning with the upper echelon of management ranks.

Rewarding the Team

To reward the team, the State must replace uncompetitive and rigid compensation packages with innovative and tailored compensation that recognizes and rewards excellence. And to ensure that California's compensation strategy supports improved public outcomes, the administration also must designate a leader on compensation, build a structure to guide improvements, and promote a workplace culture that values performance.

- ❑ **Tapping leadership.** The Governor should direct the State's leader for personnel management to develop specific proposals for effectively using compensation tools to improve performance.
- ❑ **Establishing a structure.** The Governor and Legislature should establish a mechanism to ensure the State's compensation strategy is competitive and recognizes performance.
- ❑ **Recognizing the culture of public service.** The Governor, agency secretaries and department directors should regularly recognize the contributions of state workers by granting and highlighting merit awards, publicizing the accomplishments of individuals and departments and celebrating state workers who personify the ethic of public service.

Introduction

High quality managers are essential to improving outcomes for taxpayers and clients of government services. And managers need the tools to transition from business-as-usual to performance-oriented organizations.

But government seldom recognizes the link between clear goals and good implementation. And rarely does the rhetoric about "waste, fraud and abuse" make the essential link between inefficiency and poor performance. As a result, California has not made the strategic investments necessary to create a successful workforce.

This report is the Commission's third review of the State's personnel system over the last decade. In 1995 the Commission offered detailed recommendations for reorganizing and re-engineering the fragmented and often dysfunctional personnel system. Among other concerns, the Commission concluded that managers lack the authority, leadership skills and incentives to create effective agencies capable of meeting public goals. In 1999, recognizing that "civil service" reform proposals were controversial and divisive, the Commission examined how other states had managed to make progress and published recommendations for how labor and management could collaboratively craft meaningful improvements. The Commission called for reforms to how the State hires and trains managers and the way in which the State organizes various management positions to build a unified and talented management corps.

In this project, the Commission focused on the management system for two reasons. 1) A strong management corps is essential to improve performance throughout state government, and 2) because managers are not covered by collective bargaining, the management corps could be a place to begin the re-engineering that ultimately should include the entire personnel system.

To explore this topic, the Commission drew upon a range of resources and experts to assess the existing problems and the promise of reforms. The Commission held two public hearings to consult with experts from within California state government and seek guidance from national leaders. It consulted with a director of the U.S. Government Accountability Office, a former director of the U.S. Federal Executive Institute, the current and past presidents of the National Association of State Personnel Executives and veteran managers who have demonstrated leadership in state service. It also heard from the Association of California State Supervisors and reviewed the work of the Excluded and Exempt Employee Salary-Setting Task Force. A list of hearing witnesses is in the appendix.

The Commission also examined the personnel and management reforms recommended by the California Performance Review. While this project was underway, the Commission also held hearings at the request of the Schwarzenegger Administration on the CPR's approach to reorganizing state government. During that project the Commission met with Leon Panetta, the former White House chief of staff and director of the U.S. Office of Management and Budget; Paul Volcker, the former chairman of the Board of Directors of the Federal Reserve System and chairman of the National Commission on the Public Service, among others. Those meetings led to the Commission report: *Historic Opportunities: Transforming California State Government.*

This project draws from the lessons outlined in *Historic Opportunities* and is guided by a decade of Commission efforts to improve the operations of public programs and provide better outcomes to residents of California.

If implemented, the recommendations in this report will ensure that the state's management workforce is empowered and equipped to improve outcomes for the clients of public services and safeguard taxpayer interests.

Making the Case

Californians and their state government face a number of challenges: from stagnant educational performance to rising health care, housing and energy costs. These pressures are felt by families and communities alike, and have gone unresolved for too long.

The State plays a critical role in addressing these and numerous other problems. And the public and policy-makers recognize that the performance of state government has lagged. The federal government has fined the State more than $1 billion for failing to meet federal standards for child support enforcement.[7] Hundreds of millions more have been squandered on faulty computer systems, frivolous expenses and dubious community grants.

But the greatest expense facing the State is the cost of ineffective services. For years, California's parole system has been the most expensive and least productive in the nation – spending nearly $1 billion reincarcerating parolees.[8] Similarly, the State invests $5 billion in community colleges each year – the most expansive and affordable higher education system in the country. But students walk away from one-in-five courses – costing the State nearly $1 billion in lost educational opportunity.[9] And nearly 100,000 children sit in the purgatory of the State's $2 billion foster care system – looking for hope and permanency but often finding more pain, suffering and abuse.[10]

The State also has notable achievements. Over 3 million students gained access to affordable higher education through California's public colleges and universities.[11] California leads the nation in reducing smoking among adults and teenagers.[12] Focused educational efforts and improved policies have resulted in more children being placed in carseats and more adults wearing seatbelts. The State has one of the lowest infant mortality rates in the country.[13] And despite significant population growth, more cars and more commerce, air quality is improving.[14]

In many ways, tracking poor outcomes is easier than documenting achievements. Press stories, audit reports and constituent complaints document failings. But success often goes unheralded. Yet as with these examples, the State operates many programs recognized for success. Skilled managers, supported with clear goals and sufficient authority can translate policy into public outcomes.

To improve outcomes throughout state government, policy-makers must shift their attention to the routine state operations that determine whether people are well served. And they should focus on equipping the administration with a corps of professional managers who recognize that the work of government is important, difficult and can be improved.

Personnel reforms should be prioritized for three reasons:

1. Policy-makers are inundated with crises that could be avoided through improved management. California's prison system needs fundamental reforms. Each day that the Bay Bridge goes unfinished adds to its costs. And poorly monitored community grants heighten public mistrust of policy-makers and public servants.

Poor Management Increases Costs, Lowers Quality…

Mismanagement increases public costs.

- The Department of Corrections fails to utilize strategies shown in other states to be effective. Instead, the department spent over $900 million re-incarcerating parolees.
- Poor planning, lack of reliable data and inability to hire pharmacists at the Department of Health Services have cost the State $104 million. The department's mismanagement of drug rebates has cost the State up to $216 million.
- Flawed negotiating practices, payment of inappropriate and invalid medical claims, and inconsistent oversight of medical service contracts at the Department of Corrections has resulted in overpayments and driven up public costs.

Poor management delays improvements.

- The State spends $65 billion on health and human services. Still, despite a decade of troubling reviews and an annual investment of $20 million on oversight and advisory bodies within the Health and Human Services Agency, monitoring fails to drive improvements.
- The Department of Health Services has not followed standard practices in implementing a comprehensive disease management program to improve care and reduce costs.
- The Commission on Teacher Credentialing issues licenses and permits for teachers, school administrators and specialized educators. Some 239,000 licenses and renewals were issued in fiscal year 2003-04. But weak management and inefficient use of an automated electronic processing system has increased costs and delayed services.

Weak management draws federal investigations and fines.

- A U.S. Department of Justice review of Metropolitan State Hospital found severe deficiencies in the management of nearly every aspect of the hospital's operation. The Department of Mental Health has failed to protect the rights of the children and adults in its care and delayed their recovery.
- A 1988 federal law required all states by 1997 to develop automated systems to ensure parents are making appropriate child support payments. Because California is not in compliance, by the end of fiscal year 2005-06 the State will have paid almost $1.2 billion in federal penalties.

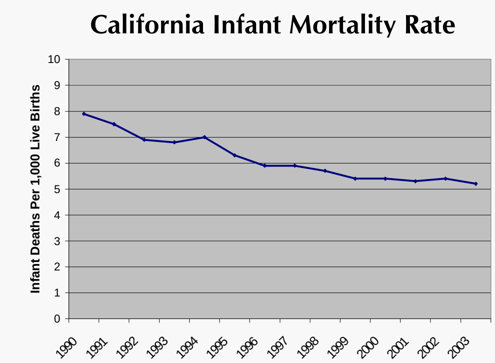
Sources: See page 76.

Government is inherently a people operation. To avoid future crises, quash the recurring emergencies that detract from sustained improvement and stabilize the costs of public programs, the State must ensure that public servants – particularly the managers, supervisors and senior executives – are talented, well equipped for the challenges ahead, and sufficiently motivated to meet public goals.

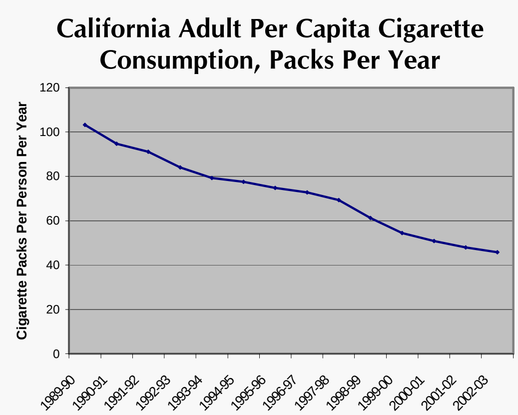
2. Government assumes the responsibility that no one else wants, but must get done. The mission of state government is vast and essential: protecting public health, preserving the environment, and promoting the prosperity of current and future Californians. Succeeding with this diverse mission is inherently difficult. Building a car is difficult, and the best minds are challenged by the task of doing so efficiently and competitively. But addressing poverty, curing addiction, stopping crime, and integrating immigrants – these are nearly impossible tasks that require the best managers, the most talented workers and dedicated

...But Quality Management Improves Outcomes

Infant death rates in California are down.
Infant death rates are one of the most widely used indicators of overall community health. California's effort to educate families on how to prevent Sudden Infant Death Syndrome reduced the rate of SIDS deaths by 20 percent from 1999 to 2001. Paired with improved treatment practices for infants and other prevention approaches, overall infant death rates have declined from 7.9 in 1990 to 5.2 in 2003, one of the lowest in the nation.



Fewer Californians are smoking and cancer rates are down.
In 1988, voters approved the Tobacco Tax and Health Promotion Act, which increased cigarette taxes and earmarked funds to reduce tobacco consumption. The State's anti-tobacco strategy has four broad priorities: reducing exposure to second-hand smoke, countering the influence of the tobacco industry, reducing the availability of tobacco products and providing cessation services. In combination with additional taxes on tobacco products, the State's strategy has paid off. From 1989 to 2002, cigarette consumption was down by 56 percent, and lung and related cancers also were down.



Despite population growth, air quality is up and pollution levels are down. Through an array of strategies – including the promotion of technological advancements, tighter emission standards, and better control measures – Californians are enjoying improved air quality. From 1990 to 2003, pollution indicators for ozone, carbon monoxide and particulate matter showed improvements of 43 percent, 60 percent, and 27 percent respectively.

Sources: See page 76.

professionals. But the State has not designed its personnel system to recruit and retain the best and it fails to even train its existing workforce to respond to expanding and emerging needs.

3. Managing public programs is inherently difficult. Unlike a business, government must work openly. It is governed by separate and often antagonistic branches, and exposed to the politics of elections and party differences. Government is not designed to be the most efficient. It is intended to be reliable. But that does not preclude good management and continuously improving performance. Policy-makers, however, have not made strategic investments in the quality of state management. The State has no leader charged with ensuring all state managers are well-qualified and appropriately equipped. The State does not monitor the quality of management hiring decisions, ensure that appropriate professional development and training are available, or ensure the availability and use of sound management tools. Nor has the State worked to reduce the complexity of management requirements. To improve outcomes, the State must ensure that managers have clear goals, appropriate direction and the capacity to influence outcomes.

The State succeeds when…

- ***Goals are clear.*** Clear goals allow managers to focus resources to meet expectations and are easily understood by each employee, the public and policy-makers.
- ***Evidence is developed.*** Equipped with information, and the discretion to alter practices, managers can employ proven and innovative strategies to improve outcomes.
- ***Performance is tracked.*** Performance data allow managers to track outcomes, call for improvements and replicate successes.
- ***Human resources are a priority.*** Equipped with a research-based strategy for improvement, and the necessary resources, managers can ensure that workers have the skills needed to improve outcomes.

4. Performance matters. Each public program can improve. When public programs fail or falter, all Californians are impacted. When they excel, quality of life goes up and costs go down. But the performance of government is not consistently documented, promoted or analyzed in ways that drive improvements. Thus public programs often must fail dramatically and publicly before changes are sought, improvements implemented and outcomes monitored. And successful programs are rarely highlighted. As a result, the State forgoes opportunities to learn from its successes and create new opportunities for improvement.

Successful governments – at the federal, state and local levels – are focused on public goals and equipping their managers to improve performance. Leading-edge agencies are building, managing and rewarding their teams to attract the best and the brightest, motivate performance and recognize success. These three themes are outlined in the following chapters.

Building the Team

The State's greatest assets are its employees. But California's personnel system hampers efforts to make the best use of the most skilled public servants, particularly those in leadership positions. The State has not undertaken sufficient workforce planning to ensure that departments have the people and talents they need. Recruitment is nearly non-existent. Selection tools are inaccurate, expensive and time consuming. And the State's managers do not receive the training they need to best manage limited public dollars and essential public programs. Most importantly, the State has failed to create a unifying vision of state work that recognizes the value of public service.

To address these challenges, the State must put in place reforms in five areas:

1) Hiring procedures should be streamlined and designed to bring into state service the best and brightest public servants.
2) Public service must be reinvented and recognized as a noble cause by potential employees and members of the public.
3) The State must reform its management structure to nurture skilled managers.
4) Departments must invest in training and professional development to grow future leaders and ensure that employee competencies remain apace with emerging public needs.
5) California needs a workforce strategy to ensure it has the workers with the skills needed to address public priorities over time and as they change.

California faces dramatic challenges to the health and well-being of its residents. Over the next decade, the State will lose a significant portion of its veteran managers to retirement. Replacing those managers represents a tremendous opportunity to build a corps of talented, and experienced managers with aspirations to transform state programs. But under existing practices, experienced managers from other public agencies and the private sector cannot compete for most management openings in state service.

California's Personnel System

The State employs some 330,000 workers throughout all branches. Of those, 212,000 work for the executive branch. The rest are employed by the Legislature, courts, state colleges and universities. This report focuses on supervisors, managers, Career Executive Assignments and political appointees who work for the executive branch, primarily for the governor, but also for other constitutional offices and independent agencies.

Civil Service System. The majority of executive branch employees are covered by the civil service system. The Constitution and statutes exclude some workers from civil service provisions. These exclusions are intended to give state officials discretion in selecting senior administrators who help guide policy, and their immediate support staff.

The civil service system grew out of public perception that state employment was a system of political favoritism. In 1913 the Legislature created the State's first civil service system as a defense against patronage. But in less than 20 years that system was under attack for failing to ensure that public jobs went to qualified workers.

A 1934 measure defined the civil service system in the California constitution as a merit-based system that would prohibit political patronage. Reforms established a merit-based examination and selection process to prevent patronage at the front end of the personnel system and established a tenure system to protect employees from termination for political reasons.

To get hired into a civil service job, applicants must take an exam for a particular job, pass that exam and get on a certified list, and then hope to be interviewed and selected. Having gained civil service status, employees can take exams to promote up or laterally transfer into related classifications or other departments.

Managerial Ranks

Political appointees. The State employs 3,370 political appointees who are exempt from the civil service system. Not all political appointees are managers.

Career Executive Assignments (CEA). The CEA position is a senior management position that confers exempt status – like political appointees – on persons from within the civil service system. In 2004 there were 1,224 CEAs in state service.

Management classifications. Select state jobs are classified – or defined – as managers. Management positions are part of the civil service system, but not covered under the collective bargaining process. In 2004 there were 2,813 state employees designated as managers.

Supervisory classifications. Like managers, state supervisors have civil service protections, but are not part of the bargaining process. In 2004, there were 23,610 state supervisors.

The Expansion of Worker Rights. In addition to the civil service system – which defines many aspects of employment for nearly all workers – the State also has a collective bargaining process, which determines the remaining terms of employment for rank-and-file workers.

California, in a series of laws enacted mostly in the 1970s, granted collective bargaining rights to state and local workers. Collective bargaining provisions apply to the majority of executive branch workers, whose union leaders negotiate with the State for many terms and conditions of employment, including salaries and benefits. Those workers fall into bargaining units, each with a separate contract, which is called a "Memorandum of Understanding."

Supervisory and management employees are part of the civil service system, but are not covered by collective bargaining agreements. But they are represented by the Association of California State Supervisors in a "meet and confer process" for addressing workplace issues.

Notes and Sources: See page 76.

Problem #1: Flawed hiring procedures thwart efforts to bring the best candidates into state service.

For many potential employees, the complexity of the hiring process is a key factor in deciding where to seek employment. Job seekers look for a clear personnel process, a reasonable timeline for applying and receiving a response and a smooth transition into a new position. In competitive markets, successful employers expedite the recruitment and hiring of standout performers, even offering positions at recruitment fairs. Hiring procedures have become so expedited that Stanford University now requires on-campus recruiters to slow the process down so that students feel less pressure to accept positions.[15] The GAO requires its management corps to recruit new employees, which helps them assess the market for talent and to mentor candidates through the hiring process.[16]

Hiring is tedious and slow. In contrast, the State's two-tier exam and application process confounds many potential applicants. The cost of administering exams and reviewing applications discourages departments from conducting expansive searches for the best talent. And on average, the hiring process takes four months for state jobs, longer than many new graduates and job seekers can wait, particularly when competing job offers require a fast response.

A survey by the Brookings Institution found that students who would prefer a career in government would not know where to start. Students commented that the hiring process for government work is "worse than any campus hazing."[17] To bring in national caliber managers, the State must make its hiring process timely and uncomplicated.

Hiring is closed. State policy favors promoting workers up through the ranks rather than bringing in experienced managers.[18] Non-state employees are closed out of state jobs in two ways. First, departments can limit eligibility for employment tests to current state employees. And second, departments transfer current state employees into new positions and circumvent the testing and qualification review process completely.

In fiscal year 2003-04, 71 percent of all managerial exams were closed to the public.[19] Of the 29 percent of

Closed Hiring Restricts Access to Talent

One way departments restrict outside candidates is limiting exams to current state employees, which are called promotional exams. The table shows recent testing and hiring patterns for managerial classes for fiscal years 2002-03 and 2003-04.

	Testing Exams offered		**Hiring** Employees hired	
	Number	%	Number	%
Open	24	29%	15	12.6%
Promotional	59	71%	104	87.4%
Total	83		119	

Source: State Personnel Board.

So You Want a State Job?

Give yourself six to 12 months before you need a paycheck. Prior to applying for a state position, applicants must first take an exam and "get on the list." Missed the last exam? You may need to wait months for the next opportunity. Some exams are offered monthly, but spaces can fill quickly as state employees seeking better jobs scramble to get into the exam. The official advice, check the state's Web site daily for exam news.

> **Opportunity for improvement:** For most state jobs, education and experience – along with a reworked probationary process – can ensure applicants are qualified and take the place of an expensive and complicated exam process. If an exam is essential, it should be offered electronically at any time, meaning that hiring lists will be continuously updated.

Even if you are the best and brightest, the State will not recruit you. In fact, state procedures will make it hard for you even to learn what jobs are available. After passing the exam and being ranked at the top, it can be difficult to learn about openings. For many positions, people are randomly selected to receive job notices. Other applicants must look each day for openings. And the State operates an employment Web site, but not all openings are listed. And the real kicker: You may be the best there is, but most departments will not consider your qualifications because most management jobs will only be open to current state employees.

> **Opportunity for improvement:** The State should actively recruit the best and the brightest from everywhere. The civil service system was originally guided by merit, but that no longer means that the most qualified can apply and get jobs. To hire the best, all qualified applicants must be eligible to apply and be hired.

If you score at the top of the exam you are eligible for hire, but so are those who squeak by. Departments must hire people from employment lists, even if the lists were created months ago. As the best are hired or find work elsewhere, those lower down move to the top. As a result, a minimally passing grade can still result in a state job. If you are the best, chances are you found a job working for someone else long before the State even reviewed your qualifications. But tell your friends who have been passed over elsewhere to come to the State, the best strategy for a state job is not to be the best, but to persist.

> **Opportunity for improvement:** Continuous testing would address the problem of old eligibility lists and ensure that departments can hire the most competitive applicants, not just those still in the job market when the State has an opening. The State also should establish performance measures for personnel practices, including the periodic review of whether those hired are the most qualified.

The State spends thousands of hours and millions of dollars testing applicants who have no chance of being hired. Under current rules, departments must test all candidates meeting minimum qualifications for a job. Thus hundreds of candidates may qualify to take a test for a single job opening. Departments are not allowed to use graduated screening procedures to identify only the best for an exam. As a result, departments limit hiring to internal candidates, rely on old lists to avoid paying for new exams or use other gimmicks to limit costs.

> **Opportunity for improvement:** Limiting the use of exams will address this challenge for most departments. But where examinations continue to be needed, mostly in those areas where education and training are not good indicators of ability, the State should allow for graduated screening to reduce costs and ensure that departments focus on the most qualified applicants who sign up for an exam, not all minimally qualified applicants.

exams that were open to outside candidates, most were for highly technical positions, such as chief medical officers, chief investment officers or actuaries.[20] Of the 119 people who were hired in 2003-04 for management positions, just 15 or 12.6 percent were hired based on exams that were open to the public.[21]

From 1999 to 2005, the State hired 2,592 people into its core management position, staff services manager. Of those hires, 24 percent were done using transfer provisions in which state employees are eligible for transfer into new positions based on comparable salaries.

Taken together, these two factors – closed exams and transfer provisions – effectively exclude non-state employees from being hired. Not a single successful candidate for the 2,592 staff services manager positions came from outside of state service.[22]

These practices limit the talent pool. On average, for all management hires, successful candidates were selected from a pool of just 13 applicants. In 11 instances, departments selected from a hiring pool of just one qualified applicant.[23]

Hiring is equally closed for the State's entry-level position for aspiring managers, the staff services analyst (SSA) classification. The SSA classification is intended to bring college graduates into state jobs that require a significant level of analytic skill. Employment examinations for the SSA position are open to the public.

But that does not mean that college graduates can easily enter the system at this point. Each month, over 230 applicants sign up to take the exam. And the State has a running list of nearly 1,800 eligible SSA candidates. The top 50 to 60 candidates can be hired by departments seeking to fill a position.[24]

From 1999 to 2004, the State hired 7,665 staff services analysts. However, the majority of those positions, 82 percent, were filled through transfers. Just 17 percent of SSA candidates entered the State system through the examination process. And half of those hired through an examination process were already working for the State. Over those six years, 94 percent of all new SSA hires were drawn from other state positions. Just 6 percent of SSA jobs were granted to candidates who did not have previous positions with the State. In 2003 and 2004, years in which hiring was made more difficult because of budget pressures, just 1 percent of SSA positions went to candidates from outside of state service.[25]

Although the SSA classification is intended to draw in college graduates, state employees who transfer are not required to meet the same educational standards. And nearly 50 percent of state employees who move into SSA positions are drawn from clerical positions, for which a college degree generally is not required.[26] State officials, however, note that many applicants transferring into SSA positions are indeed college graduates.

To build a competent management corps, the State must open its recruitment, application and hiring procedures to managers and potential managers from outside of state government.

Candidate assessments are inaccurate. In 2003, the State Personnel Board reviewed the effectiveness of hiring practices conducted by state agencies. The board found numerous concerns:[27]

- Examination procedures failed to test for job-related competencies.
- Qualifying standards were applied inconsistently.
- Departments failed to accurately score test results, leading to inaccurate ranking of candidates.
- Non-job-related criteria were used to produce scores, undermining merit principles.

The board found that just 2 percent of departments ask applicants to demonstrate their competencies through a work sample or performance test.[28] Performance tests are considered the most accurate predictor of performance.[29]

But the State primarily and ironically uses performance tests for entry level positions – mostly secretarial staff required to demonstrate common tasks during the hiring process. Most managers and supervisors are assessed using less predictive strategies. To bolster the quality of hiring procedures, agencies must put in place assurances that candidates are assessed in manners that are fair, valid and reliable.

Management Skills for Senior Managers

California's Career Executive Assignment sparked the creation of the federal Senior Executive Service. But unlike the federal government, California has not used this job classification to establish mandatory management skills. The federal government has established five qualifications for senior managers. These characteristics are intended to improve the culture of public service, guide candidate assessments, hiring and career development efforts.

Leading change. The capacity to develop and implement a vision around key public goals.

Leading people. The ability to maximize employee potential and foster high ethical standards.

Results driven. The skills to make timely and strategic decisions that lead to improved outcomes.

Business acumen. The tools to manage people, finances and technology in manners that instill trust and accomplish goals.

Building coalitions. The competency to use data, explain, advocate and network to overcome resistance and forge alliances with internal and external stakeholders that support the organizational mission.

Source: U.S. Office of Personnel Management.

Historically, the State has used probationary periods to bolster the reliability of the hiring process. State employees are subject to probationary periods of six to 12 months prior to being given tenure in the civil service system. But the value of the probationary system has diminished as the requirements for rejecting an employee on probation have become only slightly less tedious than terminating a tenured civil servant. In fiscal year 2001-02, less than 1 percent of the more than 36,000 new hires, rehires and promotions were rejected during their probationary period.[30]

State officials assert that many terminations were likely for technical violations of personnel rules, rather than poor performance. Few jobs have clear performance metrics, making performance appraisals more subjective, more difficult to validate and less likely to withstand appeals.

Increasingly, public sector agencies are recognizing the value of performance contracts and establishing clear management competencies to ensure good fit between the work and candidates and remove barriers to termination for cause. The federal Senior Executive Service has outlined the qualifications it needs in senior managers. The Office of Personnel Management has designed hiring, training and evaluation tools around those competencies. Creating clear expectations for managers is a path that some public agencies have pursued to improve performance. The City of Christchurch, New Zealand has required its chief executives to sign five-year performance contracts and can be fired for failure to perform.[31] The governor of Virginia requires "executive agreements" with his cabinet secretaries.[32]

The State could invest in similar approaches to ensure the most skilled employees are charged with leading essential public sector programs.

Solution #1: The State must improve its hiring procedures to bring into state service the most skilled management candidates. The administration should:

- ***Identify management skills***. To be successful, departments must determine the skills that managers need to improve outcomes and use those competencies to select, develop and manage the managers. The State should incorporate into the hiring process the core competencies used by the federal senior executive service.
- ***Establish performance exams***. The State should develop efficient mechanisms for merit-based selection and explore the use of short-term contracts as an assessment tool prior to offering permanent civil service positions.
- ***Open the hiring process***. Hiring procedures should not discriminate against non-state employees. The State Personnel Board should re-craft selection rules to expand applicant pools, reduce costs and improve the recruitment of mid-career and other management candidates into state service.
- ***Tap top graduates from California's colleges and universities***. The State should reform exam rules so that top-tier baccalaureate graduates are automatically eligible for entry-level professional jobs such as Staff Services Analyst.
- ***Establish performance measures for the personnel system***. The Department of Personnel Administration and the State Personnel Board, in consultation with human resource professionals, should adopt and report performance measures that reflect the accessibility, clarity and reliability of the personnel system in bringing gifted managers into state service.

Problem #2: Poor public perception and a lack of recruiting keep the best and brightest from considering a career in public service.

An improved hiring process needs to be supported by strong recruitment efforts to attract skilled applicants out of college and experienced professionals away from competitors. High caliber employees, in turn, look for opportunities to make a difference and quality work environments. In perception and reality, the State is often uncompetitive on these points.

Making careers in public service matter. In the 1950s and 1960s, the public sector was an employer of choice. President Kennedy's call to service energized a generation.[33] Thousands of idealistic students and workers turned to government to create quality communities, assist struggling families and build a legacy of public service. Working for government was a calling, a commitment and a contribution.

Since the 1960s, the charge of government has expanded, placing more demands on state employees and opening new opportunities for public service. State employees are increasingly called upon to address fundamental needs.

- The Office of Emergency Services coordinates responses to natural and human-caused disasters. Over the last decade, OES has come to the aid of Californians in the midst of 42 major emergencies and disasters and numerous smaller emergencies. Last year alone, the agency trained some 4,000 first responders in disaster prevention and preparedness.[34]
- California's Department of Health Services facilitates medical and dental care for 6.8 million Californians and through its public health initiatives saves lives each and every day.[35]
- The Department of Social Services is charged with responding to the 500,000 reports of child abuse made each year and nurturing the more than 100,000 children in the State's care.[36]
- California's public colleges and universities have prepared generations of leaders and today serve 3.1 million students annually.[37]

Building Public Trust Through Performance

A high-performing government earns public trust and inspires residents to dedicate their lives to public service. Following the attacks of September 11th, public confidence in government rose significantly. The coordinated response to this national tragedy revealed the dedication of competent public leaders and skilled public servants. And increased numbers of Americans expressed their willingness to enter public service. But in the less than one year, the outpouring of support for the public sector began to fall, primarily because of concern for the performance of public programs. And federal, state and local governments missed the opportunity to recruit new public servants.

Source: G. Calvin Mackenzie and Judith M. Labiner. 2002. "Opportunity Lost: The Rise and Fall of Trust and Confidence in Government after September 11." Center for Public Service. The Brookings Institution.

But those accomplishments are marred as scandal after scandal tarnishes the real and potential accomplishments of public service. In 2005, less than a third of Californians expressed a high level of trust in their elected leaders and government.[38]

The Brookings survey found that two-thirds of college seniors wanted to contribute to their communities.[39] More than money, young Americans are looking for opportunities to make a difference. A survey for the Council for Excellence in Government found similar results.[40] But few of those surveyed saw government as offering that opportunity.[41] Campus officials in California validate these findings. Recent college graduates frequently are disappointed by the caliber of state work; it is viewed as unexciting, unchallenging and not competitive with other sectors.[42]

A number of states and the federal government are working hard to communicate the importance of public service. Indiana, Virginia, Missouri and the GAO have adopted branding initiatives to convey their value to constituents and potential employees.[43] And they work. The GAO recruits top candidates with the slogan, "When We Talk, Others Listen."[44] The Social Security Administration is documenting its accomplishments to educate employees and customers on what they do and how well they do it. For example, each month 51 million people

"Indiana – Work in Progress"

Developing a brand, making it visible and strategically structuring personnel functions have allowed Indiana to lay a strong foundation for a productive public service. Prior to 2000, Indiana did not have a state brand to attract potential employees. The State Personnel Department fulfilled a regulatory and transactional role for agencies that were responsible for their own recruiting and hiring. Recruitment meant little more than posting job opportunities and the State faced a dearth of applicants for some positions. When job announcements produced a healthy applicant pool, no mechanism allowed multiple agencies to share information.

Ushered by the brand "Indiana – Work in Progress," the State has comprehensively revamped its recruitment efforts. The Personnel Department now leverages technology and strategically aligns responsibilities of agencies and of the department. The department now serves as a recruitment consultant to agencies – networking at job fairs, posting job applications to online databases like monster.com, and finding niche avenues to recruit for hard-to-fill positions – even calling competitors in order to share applicant pools.

The State dispatches representatives to recruiting events equipped with logo-ed Frisbees, chip clips, cups, tote bags, and recruitment videos and brochures in English and Spanish. Business cards saying, "Hey! Check us out!" direct job-seekers to the newly-designed www.indianastatejobs.org. The flip side of business cards list the benefits of a job in state service.

Sources: Michelle Fullerton, Assistant Deputy Director, Indiana State Personnel Department. April 7, 2005. Personal communication. Jeff Sullivan, Recruitment Director, Indiana State Personnel Department. April 7, 2005. Personal communication.

receive social security benefits from the agency, a third of these clients rely on the payments for their livelihood.[45]

State employment offers the opportunity to make meaningful contributions to the lives of residents, the economy and the environment. But the State must address the reality and the perception that undermines confidence in public service and public servants.

Establishing a quality work environment. Everyone likes to be on a winning team, but not at all costs. People look for quality in their work environment. Twenty-one percent of USC management graduates cited reputation and work culture as a leading reason for accepting job offers.[46] The Great Place to Work Institute asserts that trust in the workplace is a defining characteristic of quality employment experiences.[47]

Anecdotal evidence suggests that the State is not viewed as a demanding employer. Reliable cost of living increases, lack of performance measures and job security support the perception that the State fails to push its employees to do their best. Acrimonious relations between senior leaders and workers at the bargaining table spill into the workplace. And many veteran workers – particularly managers charged with addressing persistent challenges – are frustrated over the pace of change, the complexity of rules and their inability to reward high performing staff and discipline others.

Partnership for Public Service

Founded in 2001 and funded by private donations, the non-partisan, nonprofit Partnership for Public Service has mounted an aggressive campaign to improve the quality and reputation of public service in the federal government. The achievements of the partnership include:

- ***Making government an employer of choice.*** The partnership has created an alliance of 500 universities and 60 agencies to better connect graduates with federal jobs, sponsored legislation to remove tax disincentives obstructing employer-funded loan repayment programs for students and brought to life the publication of the *Best Places to Work in the Federal Government* – the first ever ranking of federal workplaces. The partnership also championed the creation of the Presidential Management Fellows program to connect graduate degree holders with federal jobs.
- ***Hiring and retaining the best and the brightest.*** The partnership has helped federal agencies improve pay and personnel systems and tapped private sector recruiters to ensure that more and better candidates are informed about government jobs. The partnership pushed for the creation of a Chief Human Capital Officer position in major agencies to boost management competencies, and for the use of annual employee surveys to measure the need for personnel reforms. And the partnership helped found the bipartisan Public Service Caucus, which is coordinating legislative reforms.
- ***Improving public perception of government.*** The partnership is utilizing the talents of the entertainment community to promote public service and inspire the service of a new generation. Partnership initiatives include: awarding Service to America Medals to recognize the achievements of civil servants; creating a Youth Advisory Board to target public service opportunities to the future workforce; and, tapping media partners to highlight the successes of individual employees.

Sources: Marcia Marsh. 2004. "The Hiring Process: The Long and Winding Road." Testimony to the Subcommittee on Civil Service and Agency Organization, Committee on Government Reform, U.S. House of Representatives. http://www.ourpublicservice.org/usr_doc/Marsh_testimony_June_7_2004.pdf. Accessed March 2, 2005. Bethany Hardy, Press Secretary, Partnership for Public Service. March 8, 2005. Personal Communication. Partnership for Public Service. 2004. "Building Communities of Support: Annual Report 2003-04."

Throughout its work on child welfare, mental health, corrections, juvenile justice and other policy areas, the Commission heard from veteran managers who lamented the lack of progress, the difficulties associated with public sector management and the tendency for staff and others to resist reforms, even in the face of failing programs. For aspiring leaders, the message from current managers suggests that the State offers more frustration than opportunity.

Leading edge companies have learned that recruiting the best requires a positive image, clarity of purpose, opportunities for professional development, growth and achievement and a focused effort to convey those values to potential employees. At the federal level, the Partnership for Public Service is working to re-craft the reality and perception of the federal government as an employer of choice.

To attract the best and the brightest, the State must reinvent public service and create opportunities for achievement and advancement. And to attract national caliber candidates into state positions, state agencies must document the opportunity that state service represents.

Solution #2: To attract talented managers the Governor should initiate a campaign to service. The campaign should address two core issues:

- ***Establish a unifying vision of public service.*** The Governor must reinvigorate public service as a noble commitment to improve the quality of life of all Californians. The vision for public service should be embedded in the mission of state agencies, public policy and agency practices.
- ***Document the State's contributions to quality of life.*** Each state agency should document its contributions to the people of California – providing clear information on the work they do and its value to Californians.

Problem #3: The State's management structure thwarts efforts to develop promising and proven managers.

Leading edge employers recognize that the best and brightest employees grow with each accomplishment and must be nurtured through new challenges and opportunities. Management graduates from the University of Southern California cite growth opportunities as the second leading reason for accepting employment, just below their concern for the responsibilities of the job.[48] The most common reason for employee turnover is the perception of inadequate opportunities for advancement.[49] The Brookings survey found college graduates put a high value on new opportunities.[50]

State employment offers tremendous potential for learning and advancement. Management challenges range from managing California's massive $6.5 billion correctional system to protecting the State's 840-mile coastline.

But the State has not created explicit career paths to motivate excellence and move stellar managers into positions of increasing responsibility. Internships are not conceived as strategic recruiting efforts. Agencies do not collaborate to grow the cadre of skilled managers.

Further, the State's job classification system blocks career advancement and professional development. Over time, individual departments have created specialty job classifications to better align positions with their needs. But the proliferation of job categories has added to confusion and isolated departmental workforces. The State has 4,462 separate job classifications. Just 12 percent are utilized by multiple departments and designated as service wide.[51] Most positions are used only by a small of number of departments and thus less likely to be explicitly linked to promotional opportunities.

A range of public sector employers have begun to recognize the value of a career ladder and the need to facilitate recruitment across departments and other divisions. The federal government and local agencies have created new access points on their management ladder, both for entry-level trainees, outstanding scholars and mid-career professionals. The federal government operates the Student Educational Employment Program, designed to attract temporary student employees and students interested in transitioning into the federal service. The federal government also operates the Presidential Management Fellows Program for graduate degree holders.[52]

Technical Track

California's classification system creates pressure for technical experts to move into management positions. For technical experts seeking promotions – computer programmers, scientists and others – they often must enter the managerial ranks, even when they lack management skills or aspirations. In addition to a career ladder for the best and brightest managers, the State must create a career path for technical experts the State needs to retain but does not envision serving as managers.

In the United Kingdom, the national government operates the Civil Service Fast Stream Development Programme, a graduate-level accelerated training and development program for individuals who are selected on the basis of their potential for senior Civil Service positions.[53] The City of Long Beach offers a one-year apprenticeship for aspiring managers.[54] Private sector companies and the federal agencies recruit future managers through internships.[55] And several states are streamlining their job classification systems to improve career opportunities. Virginia cut 80 percent of its job classifications to streamline procedures and better equip the personnel system to support public programs.[56]

California statute already allows agencies to pursue demonstration projects to improve operations and outcomes.[57] The Student Transition Appointment/Recruitment demonstration project was designed to improve the recruitment of outstanding scholars into state jobs.[58] The Career Management Assignment demonstration project within the Department of General Services provides valuable guidance on streamlining managerial classifications, improving the pairing of positions and personnel, and using performance-based pay.[59] Unfortunately, both efforts have been shut down.

To recruit the best and the brightest, the State must create explicit career paths for Californians willing to commit their lives to public service. Aspiring and experienced managers must be given the opportunities to enter state service and all managers must have opportunities for career advancement.

Solution #3: The State must reform its management structure and actively develop stellar managers.

- ***Reform the classification system.*** The Department of Personnel Administration and the State Personnel Board should reform job classifications – and the rules governing transfers – to ensure that state employees have appropriate opportunities for upward mobility and that all hires are based on competency rather than comparable salaries.
- ***Establish a fast-track management development program.*** To develop promising employees into potential managers, the Governor should appoint an innovative leader to conceive, design and implement a management development initiative. Participation should be highly competitive and open to employees from Staff Services Analysts to those in Career Executive Assignments. Participants should receive enhanced training, mentoring, and rigorous performance evaluation. Participating employees should be excluded from collective bargaining, subject to performance management and benefit from performance compensation.
- ***Establish a Governor's mid-career management fellowship.*** The one- to two-year fellowship should be highly competitive and open to experienced managers from outside of state government who want to serve the public. The fellowship should provide participants with sufficient background in public sector budgeting, personnel, public process and public service to allow them to successfully lead a state program or department. Successful participants should be eligible for state management positions without further testing.
- ***Establish a student career experience program.*** The State should establish a program that provides work opportunities for highly skilled college students interested in temporary employment or transition into civil service positions. Modeled after federal programs, participation should be competitive and include performance evaluations. Successful participants should be eligible for state positions consistent with their internship responsibilities without further testing or review.

Problem #4: The State fails to invest in training to improve the skills of its managers.

Policy-makers have declared training and professional development as crucial to improving the quality and efficiency of public programs.[60] Each state agency is required to develop an annual training plan that assesses needs, identifies strategies for improvement, targets limited resources to their most efficient use and evaluates results.[61] But agency training plans are not monitored and often do not exist. The State does not have an enterprise-wide training and professional development agenda.

Some departments have made training and professional development a priority. The Department of Financial Institutions and the Department of Parks and Recreation have developed strategic training initiatives for managers and aspiring managers. The Department of Social Services established a professional management development program and a mid-level manager training academy to better prepare managers to meet needs.[62] But turnover at the top and increasing budget pressures brought those efforts to a halt. Statewide, agencies have found diminished support for training in the front budget office and Legislature. The California Performance Review found that less than half of state agencies have a training unit.[63]

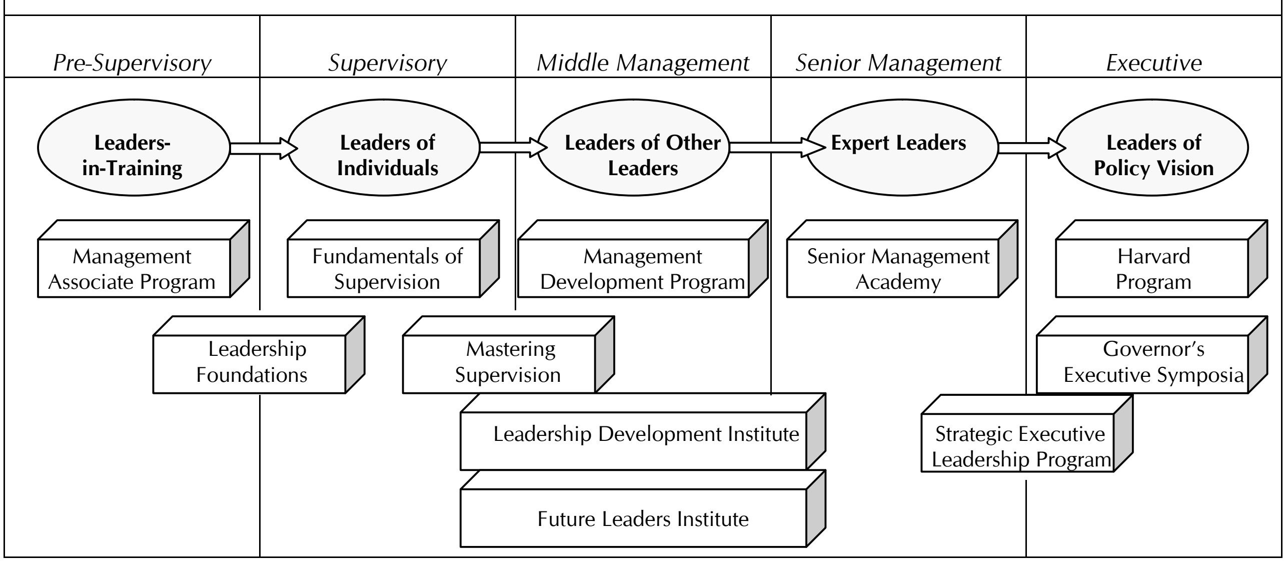
In 1999, in conjunction with the University of Southern California, the State created the California Leadership Institute to strengthen the leadership skills of senior executives. Over 200 senior leaders participated in Institute training.[64] In 2004, the State ended its participation in the Institute and shuttered the State Training Center.[65] In fiscal year 2003-04, just 4 percent of managers participated in training through the State Training Center. Employees may have attended training offered by their departments or other venues. But the State does not track training, training expenditures or who participates.

Department leaders assert that a commitment of time and resources is required to continuously train managers. Departments must work under enterprise-wide standards to better prepare current and future managers to tackle public sector challenges.[66]

Pennsylvania has developed a continuum of leadership education, beginning with a management associate program and capped by participation in a Harvard program for senior executives and a Governor's Executive Symposia.[67] The federal government also supports a master of public administration program for federal executives, under a partnership with the University of Colorado.[68] Also in conjunction with a

Pennsylvania Leadership Education and Performance Program[69]

Pennsylvania offers its managers a continuum of professional development opportunities. Linked programs equip leaders with the skills needed for current responsibilities – and prepare them for promotion – allowing Pennsylvania to continually cultivate a workforce capable of meeting future needs.



university partner, the State of Louisiana has developed a competency-based training and development program to outfit its managers with the real-world skills needed to manage public sector programs.[70]

The GAO and professional development experts assert that continuous training is essential to meeting public needs in a cost-effective manner.[71] The federal government has three training centers dedicated to building a cadre of skilled, ethical and dedicated managers to guide improvements throughout the federal system. The U.S. military is known for its commitment to institutional training, operational assignments and self-development to nurture new leaders and help them hone their skills.[72]

State and local agencies are making comparable investments in training and professional development. The Los Angeles County Sheriff's Department places all of its employees – civilian, deputy and management – in a three-day leadership course as part of the department's Deputy Leadership Institute. Employees are encouraged to participate beyond minimum requirements.[73]

To improve outcomes, California must invest in upgrading the skills and competencies of its current and future managers.

Solution #4: To improve outcomes, the State needs to make a commitment to management training and develop the capacity to train managers and leaders.

- ***Invest in management and leadership development.*** The State should establish a continuum for leadership and management development, starting with training for management trainees and capped by a strategic executive academy.
- ***Build training costs into allocations for positions.*** The State should incorporate in the budgets for individual positions the total costs of employee compensation, as well as professional development and training. Departments should be allowed to carry a limited surplus from year-to-year for training.
- ***Document value of training.*** As part of the budget process, departments should document training expenditures and the results of training investments to ensure its efficacy in improving public outcomes.

Problem #5: Departments do not know which skills their employees possess and which additional skills are required to meet public needs.

The executive branch of state government employs a workforce of more than 212,000, with some 208,000 in the civil service system.[74] The State Personnel Board has reported that over 70,000 employees in the civil service system, or 34 percent, are eligible to retire. An additional 37,000 will reach retirement age over the next five years.[75] Together, these figures indicate that half of the people in the civil service system could move to retirement in the next five years. On average, the State loses 7,000 employees each year, or just 3.4 percent, due to retirements.[76]

Predictably, the management corps could be hardest hit. In 2004, 47 percent of state employees in management classifications were eligible to retire.[77]

Workforce and succession planning identify needs. All employers must attract and train new workers to replace those who are retiring. As the U.S. population ages, the overall labor market is undergoing a demographic shift.[78] This shift is significant for managers and administrators. In Southern California, firms are reporting moderate to extreme difficulty finding experienced professionals for managerial positions.[79] Simultaneously, public agencies around the country are facing increased pressure from taxpayers to improve outcomes, reduce costs and tackle new challenges.

The federal government and many states are using workforce and succession planning to identify workforce competencies required to meet strategic goals. The U.S. Government Accountability Office has recommended workforce planning to ensure that the present workforce is aligned with organizational goals and to develop long-term strategies to acquire, develop and retain essential staff. Agencies are encouraged to identify priorities, identify workforce gaps, develop strategies to fill those gaps and evaluate outcomes.[80]

Workforce and succession planning in Virginia includes the components recommended by the GAO: workforce assessment, gap analysis, and workforce development strategies. Virginia's efforts highlight succession planning: a determined effort to replace staff with critical skills who may leave state agencies.[81]

Government Performance Project

In 2000, the Government Performance Project (GPP) found that 23 states had formal workforce planning requirements. A number of states stand out. Since 2003, Georgia agencies have been required to submit to the governor a unified plan that incorporates strategic goals, workforce plans, funding requests and technology needs. In South Carolina agencies are surveyed annually on their workforce data and performance measures, and the State has a Workforce Planning Champions task force to share knowledge and guide improvements. Workforce planning has helped South Carolina identify the need for improved knowledge transfer among employee groups and facilitated strategies for doing so.

Source: Jessica Crawford. 2001. "State Workforce Planning 2000. A Report of the Government Performance Project." Syracuse, NY. Syracuse University.

But California's departments are not universally planning for future needs, emergencies or knowledge transfer. The Independent Review Panel on corrections, for instance, found that the correctional agency lacks a workforce plan.[82] A number of agencies have their own initiatives, including the Department of Social Services, the Public Employees Retirement System, the Franchise Tax Board and the Department of Water Resources.[83] But enterprise-wide, workforce needs are not articulated with agency goals, budget requests or technology needs. As employees have retired or otherwise left state employment, replacements are hired on an ad hoc basis.

State personnel officials are unable to document which agencies have sound work plans, are intentionally capturing the experience of departing veteran employees, and where improvement is needed.

Solution #5: Each state agency should engage in workforce planning.

- ***Require workforce plans***. To better meet current needs and prepare for future needs, each agency should document needed skills, inventory existing skills and develop strategies to address gaps.

Building the Team

Personnel responsibilities are dispersed among multiple agencies, with no leader and no consistent voice to bolster the quality of management decisions. Only when the people at the top value quality management will the people at the bottom receive the tools they need to improve their work. A visionary leader is needed to map the way, remove barriers and set high standards.

- ❑ **Assigning a leader.** The governor should designate a single leader for personnel management, including workforce planning, recruiting, hiring, career development, compensation, and retirement functions. That leader should improve existing personnel strategies, champion new approaches and identify the policy, funding and regulatory changes needed for long-term improvement.

The State only has ad hoc advisory bodies to suggest personnel improvements. A structure of formal advisors can better support and guide the State's personnel leader. The federal government has established a council of Chief Human Capital Officers to share knowledge, coordinate initiatives and improve relations with unions. Other states have formed task forces or councils to guide improvements. And private companies routinely tap advisors to ensure personnel practices remain competitive. Formal advisors can ensure California becomes and remains an employer of choice.

- ❑ **Creating a structure.** The governor should appoint an advisory council of human resource experts from the public and private sectors to guide the State's efforts to build and manage its workforce.

Improving performance will require cultural change within the State's workforce. Too much time and attention is dedicated to whether state employees are paid too much or too little, diminishing attention on what they have accomplished. The culture of California's personnel system must be transformed from a closed system that protects incumbent workers from scrutiny to the noble profession it is – one that saves lives, protects communities and nurtures the economy. Boosting public awareness of the value of public service will dramatically improve public support for public workers, improve efforts to recruit into state service the best and the brightest and reinforce a performance culture.

- ❑ **Enhancing a culture of public service.** The governor, cabinet secretaries and department directors can refashion the culture of public service by highlighting the essential nature of state service, publicly valuing the contributions of the state's workforce and recognizing the accomplishments of state programs.

Managing the Team

To achieve important public goals, the State will have to dramatically change how the public workforce is managed, beginning with the management corps itself. Reducing recidivism, improving foster care and moving more people into the workforce requires focus on goals rather than duties, outcomes instead of compliance and management capacity in place of spending authority.

The State's management system is structured around the duties and functions of specific positions and programs. Few departments clearly articulate their goals, how they will achieve them and who is tasked with producing those outcomes. Held back by restrictive budget and statutory requirements, managers have few tools to effectively improve outcomes. Internal budget decisions, legislative oversight and audits zero in on the tasks that departments are required to undertake, but often ignore whether outcomes are improving. These traditional tools of governance seldom seek to replicate high performance or address the causes of dismal failure.

In 1993 the State initiated a pilot project on the use of performance-based management, most notably performance-based budgeting. Five departments took part initially, but just two followed through. Between 1993 and 1998 when the pilot ended, both the Department of Parks and Recreation and the California Conservation Corps translated the performance initiative into improved service to customers, enhanced results and greater efficiencies.[84]

Despite the value of performance-based management strategies, few departments have adopted these tools to improve outcomes. To focus the State's workforce on improving performance, departments must put in place a performance management system with the following components:

1) Departments must adopt clear goals to guide decision-making.
2) State agencies must define, gather and use performance information.
3) Managers must be given expanded authority and responsibility to address challenges.
4) Oversight and accountability mechanisms must monitor outcomes rather than compliance with procedural requirements.

To put in place these mechanisms, the State must reform current policies and practices.

Problem #6: Departments have not articulated clear goals to guide decision-making, inspire employees and focus attention on outcomes.

Each week, California's 212,000 employees put in nearly 8.5 million hours of work, representing a tremendous potential to serve Californians. But few state agencies have a clear purpose that guides management decisions on how best to allocate those hours, or allows employees to discern priorities or improve strategy.

In 1998 the Department of Finance directed departments to develop strategic plans.[85] Although statutory requirements for planning were dropped, the Department of Finance continues to direct departments to link requests for additional funds, personnel or expanded authority to their strategic plans.[86] In practice, the Department of Finance fails to consult the plans that do exist and is unconcerned when they are absent.

Some departments have endorsed the value of strategic planning and clear missions, and use these tools to guide internal decision-making. But the majority of state agencies have not articulated clear goals that can guide the work of managers and other employees.

The U.S. Comptroller General asserts that high-performing organizations rely on a clear, well-articulated and compelling mission to engage employees in making a difference.[87] An organizational mission that is poorly understood, not in use or that competes or conflicts with other values can quickly demoralize employees. But setting and sticking to strategic plans is difficult, particularly when policies, programs and core practices are not in line with articulated goals. Employees quickly recognize these conflicts and either move on or become resigned to limited progress.

For example, the Department of Mental Health has an articulated mission to lead California's mental health system, and ensure the "availability and accessibility of effective, efficient, culturally competent services."[88] But for years mental health clients have been locked out of California's community mental health system. State policy requires rationing care only to the most severely ill. And the department's budget directs its attention away from community mental health needs. Nearly 98 percent of all department personnel are dedicated to operating the State's mental hospitals.[89] Despite dramatic unmet mental health needs among California's children, adults and families, the department has few staff available and limited expertise to help communities improve access and quality of mental health care.

Most state departments have some form of mission statement, but few provide clear guidance on goals, priorities, or how to get there. For example, the Department of Social Services has a declared mission to "serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence." But that mission has not been used as a foundation to build a results-oriented department.

In 2002, state officials told the Commission that the counties, not the State are responsible for protecting children.[90] In response, county officials asserted that the State must take on that charge.[91] In 2003, the federal government criticized state efforts to protect children and fined the State $18.2 million. The fine has been temporarily waived as the State implements reforms.[92]

The Urban Institute recommends that states improve their use of strategic planning to communicate with workers, stakeholders, policy-makers and the public about goals and priorities.[93] Strategic plans should guide budget development, workforce planning and technology investments, as well as funding decisions.[94] In 1993, the federal government passed the Government Performance and Results Act, which requires each federal agency to develop goals and objectives, define performance measures and monitor progress. The lessons from a decade of effort suggest that improvements are difficult, but federal departments are making progress.

California's agencies would benefit from similar requirements. The vague mission statements in place for many state agencies, which call for administering programs, dispensing funds and serving Californians, are insufficient to guide management decisions, employee behavior and public understanding.

The Government Performance and Results Act

The Government Performance and Results Act of 1993 was intended to shift the focus of government decision-making and accountability away from activities – such as grants dispensed or inspections made – to results – such as gains in employability, safety, responsiveness, or program quality. Under the act, agencies are to develop multiyear strategic plans, annual performance plans, and annual performance reports.

A 2000 survey conducted by the GAO found that federal managers have been challenged in their efforts to build organizational cultures that focus on results. Key barriers to their efforts include poorly defined performance measures, insufficient authority over fiscal, personnel and information resources, and budget and oversight mechanisms that fail to support results-based management.

Source: U.S. Government Accountability Office. 2001. "Managing for Results."

Solution #6: The State must renew its commitment to planning strategically, defining goals, clarifying roles and setting priorities.

- ***Departments should undertake a strategic planning process.*** Planning should involve employees, clients and other stakeholders to define goals, clarify roles, develop performance measures and assess workforce, funding and technology needs.
- ***Planning should address crosscutting goals.*** Each cabinet agency should ensure that department strategic plans address crosscutting goals that involve multiple departments, such as reducing crime, expanding access to affordable health care, protecting the environment and ensuring sufficient, affordable energy to meet needs.
- ***Strategic plans should include program goals for individual managers.*** The process should provide managers with clear information on priorities, initial strategies for success, and the specific programs and goals for which they are individually responsible and accountable.

Problem #7: Departments are not gathering or using performance information to guide management decisions and direct reforms.

The State is a tremendous data repository, but data are rarely used to guide management decisions. For those departments that do have data, few use them to determine what is working, what is not and where reforms are needed. For the rest, information systems are not designed to provide management information and gleaning useful performance data from those systems is difficult, costly and often confusing.

For instance, the California Community Colleges collect data on the number of students who enroll in classes, whether they persevere through their courses, the grades they earn and their progress toward degrees.[95] But the information is rarely used to guide funding, policy and management decisions. This information also is not used to help students find the colleges and programs most capable of meeting their needs.[96]

Community College Performance

The State collects detailed data on community college students, including whether they complete coursework. But performance data are not used to shape reforms and improve outcomes. Between 1998 and 2004, student retention has hovered between 81 and 83 percent, indicating that students fail to complete about one-in-five courses. But that information has not lead to reforms to improve retention.

Source: Community Colleges Chancellor's Office.

The Department of Corrections invests $6.5 billion in prisons and parole services and has faced increasing scrutiny for a dismal record in preventing recidivism.[97] But the department explicitly prevents some community correctional facilities from tracking outcomes for the offenders being served.[98]

And the Child Welfare System Case Management System contains detailed information on children in foster care. But the data often are incomplete, and the system has limited utility for tracking health, education and workforce outcomes for children raised in the State's foster care system.[99]

But performance information is essential to helping employees, policy-makers and the public understand the quality of public programs, their value and areas needing improvement. The U.S. Comptroller General asserts that fact-based understandings of public efforts provide essential guidance for improving outcomes where there are deficiencies and recognizing accomplishments where there are successes.[100]

In testimony before the Commission, J. Christopher Mihm, the managing director for strategic issues at the Government Accountability Office, said

Effective Performance Management

The GAO identified these key characteristics of an effective performance management system:

1. **Align individual performance expectations with organizational goals**. An explicit alignment helps individuals see the connection between their daily activities and organizational goals.
2. **Connect performance expectations to crosscutting goals**. Placing an emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.
3. **Provide and routinely use performance information to track organizational priorities**. Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.
4. **Require follow-up actions to address organizational priorities**. By requiring and tracking follow-up actions on performance gaps, organizations underscore the importance of holding individuals accountable for making progress on their priorities.
5. **Use competencies to provide a fuller assessment of performance**. Competencies define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.
6. **Link pay to individual and organizational performance**. Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable and transparent performance management systems with adequate safeguards.
7. **Make meaningful distinctions in performance**. Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to reward top performers and deal with poor performers.
8. **Involve employees and stakeholders to gain ownership of performance management systems**. Early and direct involvement helps increase employees' and stakeholders' understanding and ownership of the system and belief in its fairness.
9. **Maintain continuity during transitions**. Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

Source: J. Christopher Mihm, Managing Director, Strategic Issues, U.S. Government Accountability Office. August 26, 2004. Testimony to the Commission.

that effective performance management systems provide information that can drive internal change as well as achieve external results. These systems help departments manage on a day-to-day basis.

For instance, the Federal Aviation Administration helps their employees understand how their individual efforts translate into reducing aviation accidents and saving the lives of passengers.[101] In Missouri, the workers who paint yellow stripes on the road know what is expected of them. Line painters, their supervisors and senior managers are each held accountable for improving roadway safety to reduce traffic deaths.[102] And in Minnesota, each department is required to post on a Web site information on goals, measures and targets for the year. Biannual reports are required for each department on the use of technology, financial and capital management, results management and human resource management.[103]

To guide improvements, communicate progress and highlight needs, each department must define the results they intend to achieve, develop strategies to monitor outcomes and put in place systems to track progress. Agencies need to understand who is served, at what price and with what results.

Solution #7: The State must make a commitment to performance management.

- ***Departments should identify the public outcomes they will promote.*** Consistent with strategic planning, departments should establish outcomes that reflect their mission. Outcomes should be meaningful to the public and policy-makers and provide employees with guidance on department priorities.
- ***Departments should identify the programs needed to achieve those outcomes.*** Consistent with strategic planning, departments should link outcomes to specific programs or projects. Managers must be able to see the nexus between their daily work and desired outcomes.
- ***Departments should identify measures for monitoring progress.*** Measures should be designed to provide managers, employees, the public and policy-makers with clear information on whether progress toward goals is being made, where improvements are needed and how to proceed.

Problem #8: Managers do not have the tools needed to improve outcomes.

Well-defined goals and performance measures provide clear direction to managers, but progress also depends on managers having the authority, tools and support to develop improved strategies. Legislative mandates, statutory restrictions and directive budget language often tie the hands of managers who may better understand the problems to be solved, the solutions likely to work and how to implement them. Budget and policy deliberations must recognize how these constraints may impede performance.

Three primary tools are available to managers to leverage state resources to meet public goals: people, technology and financial management. But state statutes and regulations limit the utility of these tools for improving outcomes.

People. California's classification system is the backbone of the civil service system. State employees are hired, paid and retained based on their ability to perform the specific duties defined in their job classification. But the classification system prevents departments from shifting workers efforts from low-priority to high-priority challenges. Workers who are asked to deviate from their job duties can claim violations of civil service policies. If managers cannot reassess and reassign employees, and if employees cannot seek permission to alter the nature of their work to better align their efforts toward goals, then improvements are unlikely.

Collective bargaining agreements also can unduly limit the ability of managers to address deficiencies. For example, the Independent Review Panel, in its review of the correctional system, charged that the labor agreement with the Correctional Peace Officers Association "seriously undermines the ability of management to direct and control" the work done in correctional programs. The panel found that existing contract provisions, which dictate membership on departmental committees, restrict management decisions on training and hinder flexibility in making job assignments, are beyond the scope of what should be part of labor-management negotiations.[104]

A number of states are revising their personnel systems to infuse greater flexibility into workforce practices. Louisiana and South Dakota allow managers to negotiate starting salaries for hard-to-fill positions and for jobs in remote areas.[105] Virginia has reduced the number of job classifications it uses, drawing upon fewer but broader classifications to better deploy employee competencies and skills.[106]

Personnel reforms are essential to ensure that state government has the people with the skills needed to achieve the goals articulated by policy-makers. The Commission and other entities have identified opportunities to improve California's civil service system. In 1995, the

Commission Reports on Government Operations

The Commission has released two reports on reforms to California's civil service system, a report on the need for reform to the State's use of technology and has recommended organizational reforms to the health and human service agency to improve its ability to manage the funding it sends to local partners who provide services. These reports are available through the Commission's Web site.

Of the People, By the People: Principles for Cooperative Civil Service Reform
(Report #150, January 1999)
http://www.lhc.ca.gov/lhcdir/150rp.pdf.

Too Many Agencies, Too Many Rules: Reforming California's Civil Service
(Report #133, April 1995)
http://www.lhc.ca.gov/lhcdir/133rp.html.

Better.Gov: Engineering Technology-Enhanced Government
(Report #156, November 2000)
http://www.lhc.ca.gov/lhcdir/report156.html.

Real Lives, Real Reforms: Improving Health and Human Services
(Report #173, May 2004)
http://www.lhc.ca.gov/lhcdir/report173.html.

Commission identified the specific reforms that are needed to better align personnel rules with organizational needs.[107] In 1999, the Commission recommended a collaborative process to bring together unions and the administration to jointly solve problems and improve outcomes.[108]

Technology. The State has a dismal reputation for using technology to enhance productivity and improve outcomes. In 2000, the Commission issued a report specific to the technology challenges facing state government.[109] Despite the high cost of failure, the State has been slow to implement needed reforms.

The State's chief information officer has issued a strategic plan for the acquisition, management and use of information technology.[110] But without sufficient political capital to implement the plan, monitor improvements and address deficiencies, changes will not be forthcoming.

Financial management. Few public policy issues are completely within the domain of state government. The State primarily influences outcomes by allocating resources through partnerships with federal agencies, local governments, the private sector and community-based organizations. The tools of state governance increasingly rely on financing and other indirect strategies to serve communities.[111] A number of states are turning to improved financial management tools, including performance contracts, and blended and braided funding, to better manage their partnerships and improve services.[112] But state managers in California are not well equipped to leverage these strategies to enhance efficiency and improve outcomes. In 2004, the Commission recommended organizational reforms to the State's health and human services agency to better enable the State to coordinate its partnerships with local agencies and better support desired outcomes.

Moving to performance management will require the State to assess the tools presently available to managers and to expand managerial discretion and authority.

Solution #8: Managers must be given the authority and responsibility to manage.

- ***Departments need discretion in the deployment of personnel.*** The administration should assign a personnel leader to identify needed reforms to enhance the capacity of departments to assign, reassign, train, mentor, discipline and promote managers and rank-and-file workers to better meet policy goals.

- ***Managers must make better use of technology to achieve policy goals.*** Partnering with personnel and financial management leaders, the State CIO should identify and champion reforms that would give managers improved capacity to leverage technology to improve the efficiency and effectiveness of state operations and improve public outcomes.

- ***Managers must have improved authority to manage limited public funds.*** The director of the Department of Finance should identify state-of-the-art tools to manage public finances and develop and champion reforms that would enhance the ability of managers to apply those funds in ways that produce improved outcomes.

- ***Limit the impact of collective bargaining on management capacity.*** Collective bargaining should not unduly restrict management capacity. Proposed collective bargaining agreements should be subject to independent analysis and available for public comment.

Redeploying Managers

To ensure the efficient deployment of managers, departments should periodically assess and refine their management ranks, ratios of managers to employees and distribution of authority. The State's personnel leader should advise departments on how best to undertake these reviews and provide assistance to overcome obstacles to success.

Problem #9: Oversight and accountability mechanisms push compliance and ignore outcomes.

Managers and employees need clear information – linked to goals – to guide day-to-day decisions. Performance information also can guide immediate and long-term policy and fiscal deliberations. But performance management will require changes in how the State's control agencies and the Legislature pursue oversight and accountability.

In the absence of meaningful information on the value and performance of specific programs and departments, policy-makers have turned to compliance monitoring as a strategy for oversight and accountability. Compliance audits, legislative hearings, personnel audits and other oversight activities routinely focus on whether departments have followed the often Byzantine rules that govern state operations.

Program oversight. Few public programs have clear goals, performance data and outcome measures, thus reviews mostly focus on procedural requirements. In addition, the auditor is often directed by the

Legislature to respond to specific problems, rather than overall performance. For example, in its review of California's licensing system for care homes, the State Auditor verified that the Department of Social Services was failing to follow procedures. But the audit was largely silent on whether the State's licensing goals are being met, whether people are being safely cared for and protected from abuse.[113]

Managers largely view "oversight" activities as something to endure or survive, but not as a mechanism for improvement. In 2003, the U.S. Department of Justice condemned the quality of care at the State's only mental hospital serving children.[114] The Legislature held a public hearing to review the findings, but only one lawmaker attended the hearing, and policy-makers neglected to implement procedures for ongoing monitoring to ensure deficiencies were addressed and outcomes improved. Two years following the federal report, the State's mental health oversight panel has not decided whether to examine the quality of care at Metropolitan State Hospital.

In 1991 the Legislature directed the Department of Mental Health to develop performance measures for community mental health programs. After more than seven years of development, the department began to release performance information, but those data are not used to monitor outcomes, inform budget allocations or drive policy decisions. And those data provide little helpful information on the problems at Metropolitan State Hospital and whether the children served by the hospital move on to lead productive lives.

Personnel oversight. State regulations require departments to conduct performance evaluations for each employee. But performance appraisals are not linked to outcomes or improving value to the public. Standard performance reviews in state service highlight whether employees meet deadlines, follow policies, use their time well and produce work that is "neat, well-organized, thorough, and effective."[115] They serve as a form of end-of-year report card, which can provoke confrontations when reviews are poor, and provide little guidance on how to achieve improvement.[116] And in the absence of clear job goals, information in performance reviews is not linked to outcomes.

Some state departments have migrated toward more effective performance evaluation systems. For example, the Department of Social Services evaluates upper-level managers on a more comprehensive set of competencies.[117] But overall, the State fails to use personnel evaluations to drive outcomes. Consistent with the efforts of the GAO, a number of states are linking job performance and evaluations to outcomes. In Pennsylvania, rank-and-file employees are evaluated much the same as in California. Managers and supervisors are reviewed on similar factors along with their use of performance management tools. But senior managers are specifically evaluated in the context of major work products that reflect state priorities.[118] Washington state also has bolstered personnel evaluations to focus on performance.[119]

To move forward, the State must shift its oversight and accountability efforts away from compliance monitoring and toward outcome management.

Solution #9: Oversight activities should focus on outcomes, not compliance with rules.

- ***Policy-makers should focus on the outcomes that are expected.*** Budget hearings, legislative briefings and policy discussions should be predicated on desired outcomes, performance measures and the progress to be expected.
- ***Control agencies should rely on strategic plans.*** The Department of Finance and other control agencies should review budget, personnel and policy proposals in the context of departmental goals and strategic plans.
- ***The Department of Personnel Administration should guide the reinvention of employee performance reviews.*** In consultation with employee organizations, the department should improve the strategy for assessing employee performance. The strategy should provide rank-and-file workers and managers with clear information on how employee performance is linked to public goals and how improvements can be achieved.

Managing the Team

Putting in place a performance management strategy is difficult, time consuming and rife with conflict. State officials must work closely and collaboratively with employee unions, management associations, local governments and other partners, as well as the members of the public who are served by specific programs. Without focused leadership, agencies and departments can quickly become pitted against each other as they maneuver to avoid accountability for outcomes they cannot individually achieve. To succeed, the reforms must have the sustained support of the Governor and senior cabinet officials. A performance management initiative will not take hold with an executive order alone. It must be implemented through a sustained effort, lead by a capable and experienced official accountable directly to the Governor.

- ❑ **Calling for leadership.** The Governor and Legislature should charge the State's personnel leader with implementing a performance management initiative and bolstering the quality of management throughout the administration.

The State must build a management strategy that does not rely on extraordinary leadership to overcome bureaucratic barriers to improvement. Instead, the State must design a management system in which well-trained professionals are enabled to produce extraordinary results. Other states have formed labor-management task forces to identify challenges and opportunities, build knowledge and promote collaborative efforts to improve outcomes. A labor-management task force can ensure that California's performance management system is workable, reliable and achieves desired outcomes.

- ❑ **Promoting a structure for cooperation.** The Governor should establish a labor-management workgroup to provide a healthy and honest forum for driving and monitoring improvements and preventing and resolving conflicts.

More than budget or regulatory requirements, the culture of the State's workforce will determine whether performance management strategies will take hold and public needs and outcomes will drive day-to-day decisions. To improve outcomes, the Governor and Legislature must reinvent the culture of public service. Employee unions must progress from stalwart opponents to allies. Senior officials and policy-makers must embrace the needs of the public and focus their energies on improving and documenting public outcomes.

- ❑ **Elevating the culture of public service.** To re-craft the culture of public service, the Governor, cabinet secretaries and department directors must publicly and consistently declare the goals to be achieved through state programs, the progress being made and the accomplishments of public servants.

Rewarding the Team

California's compensation system undermines efforts to recognize and reward employees dedicated to public service. Management salaries are uncompetitive with the private sector and other governments. Senior managers have few options for recognizing excellence in individuals and fewer still are exercised. And the State fails to maintain adequate pay separations between managers and their subordinates, creating disincentives to enter management ranks and undermining morale.

To attract the best and the brightest, leverage their potential and promote ongoing improvement, compensation must be strategically designed to improve outcomes. The State's compensation strategy should target three goals:

1) Compensation should promote the recruitment and development of the most skilled managers to improve public outcomes.
2) Policies and procedures should encourage tailored compensation packages to best reward and motivate public employees while holding down costs.
3) Compensation should recognize performance that advances public goals and improves outcomes.

To achieve these goals, the State must address the policies and practices that impede progress.

Problem #10: Management compensation is not competitive, hindering efforts to hire and retain the best and brightest managers.

California lacks an effective compensation policy for managers. For many department directors and other senior officials, compensation is fixed by the position. For example, directors of major state departments generally earn $123,255 annually.[120] But for the majority of managers in state service, salary increases are determined each year, based on the strength of the economy and whether rank and file workers are granted increases. During good budget times, salaries go up, during lean times raises are put on hold or reductions imposed across the board.

The State's Competition

County governments often pay their department directors significantly more than is offered by the State, for far fewer responsibilities. And federal employees in the Senior Executive Service in the Sacramento area earn between $107,550 and $162,000. In comparison, state employees serving as CEAs, a comparable class, earn between $69,216 and $117,960.

Sources: U.S. Office of Personnel Management. Department of Personnel Administration.

Determining pay levels. Each year, the Department of Personnel Administration reviews the compensation provided to managers and proposes changes based on the concerns raised by managers and agreements reached at the collective bargaining table with non-management workers. In simplest terms, the State seeks to pay managers 10 percent more than their subordinates, but only if the money is in the public coffer.

State law directs that "like salaries will be paid for comparable duties and responsibilities. In establishing or changing these ranges, consideration shall be given to the prevailing rates for comparable service in other public employment and in private business."[121] But the State does not have a grasp of comparable work or comparable pay.

Despite access to detailed employment and salary information, the State does not use these data to track compensation trends, develop pay policies or adjust earnings. In late 2004 DPA sought the assistance of personnel officials in other departments to call local agencies to determine the competitiveness of state compensation packages, a strategy that at best would provide a snapshot of compensation levels.

In contrast, the federal Office of Personnel Management taps national compensation surveys performed by the Bureau of Labor Statistics to develop local pay scales for federal managers in all regions of the country. Federal sampling procedures are under constant review to provide the best analysis to guide federal compensation decisions. Federal pay scales are tuned to 95 percent of the pay offered for comparable work in the same geographic region and the federal government issues an annual report on efforts to meet that goal.[122]

Entry-level positions. California's personnel system was designed to bring in potential managers as analysts who can graduate into management roles. The Staff Services Analyst position is the entry-level position for prospective managers in state service. Beginning pay for a Staff Services Analyst is $31,584 per year. A comparable position at the county level pays $43,584 in Placer County, $48,586 in Alameda County and $56,184 in Sacramento County.[123] The City of Sacramento, the home of California state government, pays $48,612 per year for a comparable position.[124]

The federal government generally recognizes federal grade scale 5 as the entry level for recent college graduates, offering $28,751 as a starting salary in the Sacramento area. But pressure to attract employees with multiple offers has pushed federal agencies to pay new hires at grade scale 7, or $35,614 annually. Nationally, the average starting salary for recent college graduates entering management trainee or other entry-

Salary Scales

The State has 4,462 separate job classifications which define the duties and pay scale for each state position. Many of these positions are grouped in classes that reflect similar skill sets but with specific areas of focus, such as Associate Governmental Program Analyst and Associate Personnel Analyst. Positions that perform comparable work receive comparable pay. The diagram reflects the organizational hierarchy of a sampling of positions and their respective salaries. Technical positions, including attorneys, medical professionals and other classifications, are not represented.

Position	Salary Range
Cabinet Member	$127,560 to $137,976
Major Department Director	$119,664 to $129,432
CEA V	$107,016 to $117,960
CEA IV	$101,112 to $111,444
CEA III	$96,360 to $106,248
CEA II	$87,624 to $96,612
CEA I	$69,216 to $87,888
Staff Services Manager III	$76,008 to $83,808
Staff Services Manager II (managerial)	$69,216 to $76,332
Staff Services Manager II (supervisory)	$62,532 to $75,432
Staff Services Manager I	$56,952 to $68,712
Associate Governmental Program Analyst	$49,332 to $59,964
Staff Services Analyst	$31,584 to $49,860
Management Services Technician	$27,972 to $38,412
Office Assistant	$23,256 to $31,056

Source: Department of Personnel Administration. 2005. "Section 8: Variable Compensation." *Universal Salary Schedule*. Department of Personnel Administration. 2005. "Exempt Roster." *Civil Service Classification Database: Personnel Information Exchange*. Accessed May 10, 2005. Department of Personnel Administration. 2003. "Exempt Salary Chart." On file.

level management positions, in both the public and private sectors, was $34,447, or 10 percent higher than the State's entry-level pay.[125]

Setting aside differences in benefits and other forms of compensation, which require analysis that the State has not performed, for entry-level professionals, the State pays toward the lower end of salaries for comparable work in the public sector.

Senior managers. The State of California and the federal government each use a classification system to bridge the civil service system and the highest level of political appointees. In California, this service is referred to as Career Executive Assignments and is reserved for senior managers and executives who are tapped by political leaders. The Senior Executive Service is the comparable federal employment system.

State Salaries are Largely Noncompetitive[129]					
	State of California[130]	County of			
		Alameda[131]	Placer[132]	Sacramento[133]	Yolo[134]
Population of Region	36 million	1.5 million	292,100	1.3 million	184,500
Department	**Department of Finance**	**County Administrator's Office**	**Auditor-Controller's Office**	**Office of the Chief Financial/ Operations Officer**	**Auditor-Controller's Office**
Budget	$117.5 billion	$1.96 billion	$501 million	$4.2 billion	$252 million
Number of Employees	212,000	8,695	2,683	14,839	1,608
Director's Salary	$131,412	$218,982	$102,990	$163,728	$100,352
Department	**Department of General Services**	**General Services Agency**	**Department of Facility Services**	**Department of General Services**	**Central Services Division**
Budget	$931 million	$129 million	$145 million	$147 million	$7.1 million
Number of Employees	3,651	448	207	570	31
Director's Salary	$123,255	$155,969	$127,511	$120,874	$77,106
Department	**Department of Social Services**	**Social Services Agency**	**Department of Health and Human Services**	**Department of Human Assistance**	**Department of Employment and Social Services**
Budget	$17.7 billion	$581 million	$121 million	$665 million	$64 million
Number of Employees	3,982	2,277	840	2,188	361
Director's Salary	$123,255	$156,052	$122,016	$161,773	$103,716
Department	**Department of Personnel Administration**	**Human Resource Services**	**Personnel Department**	**Employment Services and Risk Management**	**Human Resources Division**
Budget	$105.6 million	$12.8 million	$7.7 million	$26 million	$923,000
Number of Employees	225	76	30	113	11
Director's Salary	$123,255	$145,662	$102,990	$105,966	$75,150

In California, CEA salaries range from $69,216 to $117,960 based on experience, the size of the agency and level of responsibilities.[126] The federal Senior Executive Service pays between $107,550 and $162,100. Salaries for these federal positions are not adjusted by location. CEAs in state service earn approximately one-third less than their federal peers in California. Local governments do not consistently have a comparable classification.

Executives. At the top end of public management, department directors in state government generally earn $123,255 per year.[127] A few individuals earn more, including the Chancellor of the California Community Colleges, who earns $185,484 annually.[128] Department directors responsible for multibillion dollar budgets, thousands of employees and statewide responsibilities can earn considerably less than their local government peers who generally handle fewer responsibilities.

Department directors in Sacramento County generally earn between $100,000 and $150,000 annually.[135] In Alameda County, department directors earn between $100,000 and $200,000.[136] Department directors in Sutter, El Dorado and Yolo counties, smaller counties adjacent to the capital, earn between $84,000 and $120,000 per year.[137]

For senior administrators in the public sector, county or federal employment offers the potential for far greater earnings or comparable pay for considerably less responsibilities than is available through the State. For instance, in its review of the corrections system, the Independent Review Panel documented that state pay for senior correctional administrators falls short of comparable federal positions.[138]

The U.S. Bureau of Labor Statistics compiles data on public and private sector salaries in the Sacramento region. Data collected between December 2002 and January 2004 indicate that private executives and managers, on average, earn 21 percent more than their public sector counterparts.[139] At the bottom 10 percent of the management pay scale, government offers more comparable pay. On average, based on hourly pay rates, the lowest paid public sector managers earn 7 percent more than the lowest paid private sector managers. But for top earners, those earning at the highest 10 percent in the Sacramento region, private sector managers take home 42 percent more than their government peers.[140]

To attract and retain the best and the brightest, the State must offer comparable pay for comparable responsibilities. Doing so will require the State to better assess pay scales in comparable positions in the private sector, federal agencies, other states and local governments. And the State must recognize that managers assume additional duties in comparison to their rank-and-file peers, and compensation should reflect the added responsibilities. For California to attract managers and senior executives of national caliber, it must make salaries an attractive component of public sector employment.

Solution #10: The Governor and Legislature should ensure the State provides competitive compensation that attracts, retains and rewards managers and executives of national caliber.

- ❑ ***Develop competitive pay packages.*** Tapping federal efforts, the State should ensure that total management compensation, including retirement benefits, is comparable with the private sector, the federal government and local governments for each rung of the State's management ladder.
- ❑ ***Enhance compensation for senior executives.*** Pending the development and implementation of compensation reforms, the Department of Personnel Administration should explore alternative strategies to increase executive compensation, including tapping foundations or other sources of funding to ensure the State can attract national caliber executives.

Problem #11: Compensation rules are rigid and options limited, preventing the State from tailoring compensation packages to motivate improvement.

In addition to salary, California's three-tiered personnel system – rank-and-file workers, managers and supervisors and exempt appointments – offers different benefits to each segment of its workforce. Rank-and-file workers receive benefits defined in statute along with those negotiated at the bargaining table. Managers and supervisors do not have collective bargaining rights, but they are covered by civil service rules and thus enjoy the benefits of job security. And exempt employees are neither part of the civil service system nor granted collective bargaining rights, but the benefits of a political appointment include significant authority, opportunity for accomplishment and high public profile.

The majority of state employees receive health, dental and vision coverage, access to life insurance, legal service insurance, an employee assistance program, and disability insurance. The costs and coverage of these benefits may vary by employee group. Other benefits include holiday and leave pay, and access to limited merit award programs. Some employee groups can receive performance bonuses, reimbursement for the costs of required professional licenses, even assistance with relocation costs.

Despite the range of these benefits, many are insignificant. Employees who are recognized for "sustained superior job performance over a two-year period" can be granted a superior accomplishment award, which can be as small as $25 and cannot total more than $250. Supervisory bonuses can range from $250 to $750.[141] Access to group life insurance, health and dental benefits and other services is consistent with federal and private sector benefits for managers and executives and many benefits are required under federal law, such as access to continued health insurance when leaving state employment.[142]

The most recognized benefits of state employment include job security associated with the civil service system and guaranteed level of retirement benefits, including lifetime employer-paid health insurance for employees who qualify. But not all managers – particularly mid-career or second-career professionals – are willing to trade top salaries for job security and a robust retirement package. Thus the State's compensation strategy can actually thwart efforts to bring in the most qualified managers given how these benefits are structured.

Job security. The civil service system is intended to prevent political patronage. But civil service rules also shield poor performers and prevent the entry of experienced managers from other sectors. As discussed earlier, the selection process favors recruitment from within state service and discourages superior applicants from entering state service. And the costs and time involved with disciplinary proceedings undermine efforts to remove employees who fail to perform.[143] As much as the civil service system prevents nepotism and patronage, it also can undermine efforts to ensure employees have the needed skills to achieve public goals.

Retirement benefits. As the nation's workforce ages and the federal government debates reforms to social security, the State's investment in fixed, lifetime retirement benefits is a major benefit of state employment. State retirees can receive as much as 100 percent of their salary for the rest of their lives. Peace Officers can accrue these benefits with 33 years of work.[144] Fully funded lifetime health benefits come with 20 years of work. Recent scandals at the California Highway Patrol highlight the lure of disability pensions, which can shield retirement income from state and federal taxes. And recent press reports have highlighted the range of ailments defined as job-related for some public employees, including lower-back pain, heart disease and even syphilis, with no requirement to demonstrate any link between the job and the disability.[145] Although state salaries for some workers may be less than competitive, for those employees looking to remain with a single employer and retire early, state employment is overly competitive.

Assessing Needs

The State has not effectively explored with its management workforce how to better tailor compensation to needs. A 2000 survey of state employees on work and family balance needs found many seeking improved child care and dependent care services. That same year, the State established the Work and Family Fund and has provided $3.5 million to help employees balance work and family responsibilities.

Soliciting employee suggestion on other needs could improve the State's ability to recruit, retain and motivate its workers. Access to child care, tuition credits at state colleges and universities, access to new technologies at wholesale prices, sabbaticals and other innovative offerings could improve compensation at less cost than direct salary increases.

Sources: Work & Family Program. 2004. "Summary Report." Page 5. Syd Perry, Labor Relations Office, Department of Personnel Administration. March 15, 2005. Personal communication.

Compensation challenges. California's compensation system fails to recognize the diverse needs and preferences of potential employees. For many workers, the State is an attractive employer because it pairs stable if uncompetitive salaries with generous and guaranteed retirement benefits. These attributes draw an adequate number of candidates for most state jobs. But not all employees are looking for the particular compensation balance the State offers. And an inflexible compensation system may discourage skilled managers from entering public service. Several concerns undermine the State's efforts to leverage its compensation package to recruit, retain and recognize the best employees:

1. ***Individual employees have no say in compensation package.*** California's compensation system treats all employees equally. Single parents entering the job market for the first time receive the same mix of benefits – although potentially at different levels – as second-

career empty-nesters with different needs and interests. Departments are unable to offer a mix of salary and benefits that can be tailored to the needs and interests of individual employees.

2. ***State compensation assumes longevity of employment.*** The compensation system is designed for employees who join public service at the beginning of their career and remain through to retirement. Managers looking to spend a few years in state service toward the end of their careers cannot realize the value of the State's retirement package. And managers who may have lost interest in state service are prevented from transferring retirement benefits to another system and so may stay on despite a lack of motivation to perform. Job protections and a robust retirement package are of limited value to potential employees with established careers or short-term interest in state employment.

3. ***The State's compensation strategy is antiquated.*** The State offers traditional salary, benefit and retirement packages. Leading edge employers have found that employees can be better motivated by a mix of benefits that address their needs. The U.S. Government Accountability Office offers on-site child care at many of its offices. Universities commonly provide reduced tuition to employees and their families, recognizing that tuition rewards can boost the value of a compensation package at less than face value. And private sector employers may make available discounted technology and other purchases that have a mix of home and work-related uses. The State has multiple opportunities to diversify its compensation package, at less cost than traditional salary increases, including those mentioned above.

The private sector, the federal government and some states have pioneered strategic compensation systems that use non-traditional rewards to improve the value of compensation at less overall cost. The availability of on-site child care, access to training, sabbaticals, loan forgiveness programs, tuition credit at state colleges and universities, performance incentives and other rewards could form a richer compensation package at lower cost, produce a more motivated workforce and support improved outcomes.

Solution #11: To motivate improvements and attract a strong management team, the State's compensation system for managers and executives should be transformed into a flexible and innovative strategy that aids recruitment, retention and performance.

- ***Promote tailored compensation.*** The administration should periodically survey employees on their needs and interests and develop reforms leading to tailored compensation packages for individual managers.

Problem #12: The State's compensation system fails to recognize performance.

California's compensation system rewards longevity and ignores performance. First, pay raises are on autopilot. State law requires each employee to receive an annual pay raise, referred to as a "merit salary adjustment," up to the maximum pay for the position. Unless a department documents why each employee should not receive a raise, raises are automatically granted.[146] The California Performance Review reported that 99.2 percent of all eligible employees received a raise upon their last period of eligibility.[147]

Second, despite provisions for recognizing superior performance, few departments award performance bonuses. In 2003-04, the State recognized 1,024 employees, or less than 1 percent, for superior performance, granting an average award of just $250.[148] The infrequent and small size of performance bonuses undermines their effectiveness.

The combination of automatic pay increases and anemic bonus opportunities serves to level compensation at the top of the pay range. Failure to distinguish between superior performers and others can quickly demoralize the best employees. The Volcker Commission and the Brookings Institution have found that equal pay for unequal work undermines efforts to improve performance.[149]

Incentive-based compensation plans can align the State's workforce with public goals.[150] In essence, a portion of management pay is "at risk" if the public is not well served. Performance pay also motivates workers to speak up about what is working and what is not. The private sector has long utilized performance-based pay to improve outcomes. The public sector has been slow to respond, given a number of challenges associated with public sector budgeting, union resistance and other barriers.[151] Nearly 10 years ago, Governor Pete Wilson pursued merit-based pay for managers, but with little success.[152]

Reforms are underway. The federal government is linking compensation to performance for members of the Senior Executive Service (SES).[153] Federal departments with performance management provisions can increase the top range of SES salaries. For those employees, agencies can grant bonuses up to 20 percent of annual salary for outstanding performance.[154] Some expect up to half of the civilian federal workforce to be compensated under a system of performance-based pay in the near future.[155] In 2004, Congress allocated $1 million to a Human Capital Performance Fund to provide additional compensation to top performers throughout federal agencies. The President initially sought $500 million for that purpose.[156]

Some states also have performance compensation components in their performance management systems. Texas authorizes departments to award bonuses up to 6.8 percent of an employee's base pay for stellar contributions.[157] Florida has piloted a program to award departments additional funds for meeting prescribed goals, allowing funds to be used as performance bonuses for personnel.[158]

Reforms to California's compensation system should include rewards for individual performance. The State already requires departments to develop performance appraisal systems for managers.[159] But appraisals are not linked to compensation decisions.

The State has four award programs for management and senior staff. Three of these programs offer awards up to $750. The fourth, the Merit Award Program, authorizes cash awards up to $50,000 for suggestions that improve the operation and efficiency of state government. A total of 1,024 Merit Awards, averaging $250, were granted in fiscal year 2003-04. The smallest award was just $19.23, the largest, $4939.03.[160] The State's Merit Award Board, which must approve awards above $5,000 did not meet between 2001 and 2004.[161] The Department of Personnel Administration does not track awards or monitor their effectiveness.[162]

Research suggests that cash awards are the most persuasive, but the most difficult to manage.[163] Other strategies include public recognition of excellence. The President issues presidential awards for distinguished and meritorious service that include a signed certificate and distinctive

Performance Compensation

The federal government and a number of states have developed performance compensation strategies to attract, motivate and reward high-performing leaders who can consistently meet public expectations for service and efficiency. CalPERS is one example of a state entity that operates under performance contracts. In establishing its rationale for performance contracts, CalPERS states:

> *As the largest public pension fund in the nation, CalPERS' current assets are valued at over $180 billion, and a significant percentage are actively managed. Managing the portfolio requires a highly-skilled staff of investment professionals in a number of specialized areas. The primary recruitment source for these highly-qualified individuals is the private sector where they are compensated far above what is offered through the State's standard compensation strategy. Although other factors may influence qualified investment professionals to come to CalPERS, including the opportunity to work at the nation's largest public pension fund, the total compensation paid to these positions must be at a level sufficient to attract and retain the caliber of individuals needed to manage a fund of its size and complexity.*

California is home to the largest state educational system, prison system, Medicaid program, highway network and child welfare program in the country. With billions of dollars and millions of lives involved, which of these systems should not be led by the most qualified and experienced professionals in the country?

Source: CalPERS. "Suggested Response to Inquiry from Little Hoover Commission Regarding CalPERS 'Performance Bonuses.'"

pin, along with a cash award.[164] Michigan's governor periodically invites stellar employees to cabinet meetings where the cabinet stands and applauds in their honor.[165] Access to additional training, release time, partially funded sabbaticals, and other performance incentives also could form a richer compensation package, produce a more motivated workforce, reduce costs and result in improved outcomes.

As part of a strategic performance management system, the State can implement a performance compensation system that recognizes excellence, distinguishes stellar performance from minimum contributions and motivates improvement.

Solution #12: The State should craft and adopt a performance compensation strategy for managers and executives.

- ❑ ***Develop a performance compensation strategy.*** DPA, in consultation with state employees, other departments and the Legislature, should develop a compensation strategy that recognizes performance and supports improved public outcomes.
- ❑ ***Require performance contracts.*** All managers, including exempt appointees, should be hired under limited-term performance contracts that outline goals, establish performance metrics and include provisions for termination. Performance contracts should be phased in, beginning with the upper echelon of management ranks.

Rewarding the Team

Responsibility for compensation issues – from recruitment to retirement – is dispersed across several departments. And no one in state service is charged with ensuring that departments actually use available compensation tools to motivate performance, distinguish stellar from mediocre contributions, and meet the needs of individual managers. An inspired leader can transform compensation into a strategic performance initiative, guide the application of compensation policies and monitor their effectiveness. Those efforts should begin with the promotion of existing tools, the championing of additional strategies available under existing law and the identification of policy, regulatory and fiscal changes needed to better recognize and promote performance.

- ❑ **Tapping leadership.** The governor should direct the State's leader for personnel management to develop specific proposals for effectively using compensation tools to improve performance.

Compensation issues are highly political, constantly changing and require thoughtful analysis. At the federal level, the Office of Personnel Management, the Department of Labor and the Office of Management and Budget, working together as the President's Pay Agent, are charged with ensuring that federal agencies offer competitive compensation to its managers and executives. The President's Pay Agent is required to annually report on the competitiveness of federal pay and strategies to address deficiencies. A similar structure, including the director of the Department of Finance, the secretary of the Labor and Workforce Development Agency, and the director of the Department of Personnel Administration, could ensure that California's compensation strategy remains competitive.

- ❑ **Establishing a structure.** The governor and Legislature should establish a mechanism to ensure the State's compensation strategy is competitive and recognizes performance.

Compensation strategies can reinforce a performance management system. But compensation discussions almost universally focus on gaining an increment of salary increases or cutting personnel costs. A culture that focuses almost exclusively on the strength of job entitlements, reliability of pay raises and availability of cost-of-living adjustments must be replaced by a culture that focuses on public service and the opportunity to create a legacy for the people of California. Compensation should be part of a strategic effort to make that transition.

- ❑ **Recognizing the culture of public service.** The governor, agency secretaries and department directors should regularly recognize the contributions of state workers by granting and highlighting merit awards, publicizing the accomplishments of individuals and departments and celebrating state workers who personify the ethic of public service.

Source: The President's Pay Agent. 2004. "Report on Locality-Based Comparability Payments for the General Schedule."

Conclusion

Public services are provided by public servants. State departments rely on the personnel system to help them attract, hire, train and reward the best public servants. When that system fails to deliver, manage and motivate competent and dedicated individuals, public services flounder – public costs increase and the quality of services decreases.

This report documents what to insiders are well-known failings of the State's personnel system, particularly as it applies to managers. State officials acknowledge these dysfunctions. Senior managers who have been trying to make the system work have sounded their own alarms.

The growing cost of providing services and the lagging performance of so many important government operations should be enough to capture the attention of those responsible for balancing budgets and who are ultimately held accountable by the public.

But there is another factor that should increase the interest of policy-makers: Over the next five to 10 years a substantial number of the State's veteran managers will retire. They will be replaced. The question is who will replace them.

If the State relies on current practices, virtually all of these managers will be people who have been in state service most or all of their careers. While many are talented and ambitious, none of them were initially selected because of their management potential. And few of them will have benefited from the strategic development programs that successful organizations rely on to groom the next generation of leaders.

Unless the system is significantly reformed, few of tomorrow's leaders will be top graduates recruited and mentored in the difficult tasks of managing critical government operations. Even fewer will be experienced managers, from other public agencies or the private sector, who want to spend a part of their career returning California to greatness.

Think of one important challenge facing state government that can be solved with mediocre management. Think of one meaningful policy initiative that will not require skillful hands to be successfully implemented. Now consider the Commission's recommendations to systematically craft a personnel system that attracts, selects, assigns, manages, develops and rewards those trusted with transforming public ideas into public programs.

Attempting to reform civil service rules is not for those motivated by high-profile causes or unwilling to work collaboratively with traditional adversaries who have fashioned the deadlocked status quo.

Nevertheless, many other local, state and federal agencies have taken on these challenges because of the imperative between good management and good government. In 1999, the Commission compiled the lessons learned in those other governments in a report titled: "Of the People." In preparing this report, the Commission found that many of those governments have persisted in the difficult task of modernizing management systems.

The recommendations in this report are not radical. They have been modeled in other states, the federal government and the private sector. And some of these reforms are based on practices already in place in some isolated pockets of excellence within state government.

Recognizing the challenges of simultaneously changing collective bargaining and civil service that govern rank-and-file workers, the Commission focused on managers. Moreover, managerial reforms are an appropriate place to begin the system-wide changes that are ultimately needed to transform state operations, reduce costs and improve outcomes.

In decades past California was the vanguard of quality public programs. In those days – believe it or not – "good enough for government work" meant that the highest standard for quality had been met. Somehow, in the eyes of the public, public service has slipped from first class to second rate.

The State can recapture the spirit and commitment responsible for past accomplishments and focus those energies on future goals. The place to start is with a corps of talented managers who soon will be assuming the responsibilities of running state government.

Scoring the Team

An effective, efficient personnel system is essential for successful government. If the State cannot get the right people with the right skills in the right place, then public programs will not meet public needs. To improve performance, the State must monitor how well it attracts, hires and retains a qualified workforce. Performance information can guide management decisions, reveal the need for reform and allow senior officials to monitor improvement.

The federal government and a number of states, along with the private sector, have adopted measures to evaluate the performance of human resource systems. Drawing from national standards, the Commission has identified performance measures in five domains that could be used by the State. As an initial benchmark, the Commission offers its assessment of the State's standing on the measures. While some departments independently meet these standards, the Commission's assessment is based on enterprise-wide status. Ideally the State could use these measures to evaluate the progress of individual departments.

The measures shown here are grouped by domain, but each element of a personnel system is interrelated and interdependent. Failure to comprehensively assess all components will result in an inadequate evaluation. For example, high retention rates alone do not indicate a successful personnel system. Poor performance management coupled with high retention could mean that an agency is retaining mediocre or poor performers. Likewise, successful recruitment by itself does not indicate success. If the agency also has high turnover, improvements may be needed to align personnel capabilities with organizational goals.

For each measure the State is evaluated as meeting expectations (**M.E.**), making progress toward expectations (**P.T.E.**) or below expectations (**B.E.**). And where available, the Commission has included a reference to a state department that is meeting expectations or headed in that direction.

California's Scorecard

<table>
<tr><th>Workforce Planning – To best meet public needs, state leaders must know who they currently employ and deploy that workforce strategically.</th><th>Below Expectations</th><th>Progress Toward Expectations</th><th>Meets Expectations</th></tr>
<tr><td rowspan="2">Know the workforce
Workforce data is collected and analyzed. Data includes:
• employee age • tenure • job satisfaction
• attrition rates and patterns • projected retirement rates
• retirement eligibility by position
• distribution of employee skills and competencies
M.E.: Data are complete and current. Data analysis informs immediate and long-term workforce planning.
P.T.E.: Workforce data are incomplete and not always timely.
B.E.: Workforce data are incomplete or out-of-date.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: California does not have an effective, reliable mechanism for collecting workforce data.

Meeting expectations: CalTrans
Workforce data are monitored monthly. Quarterly reports are distributed to division chiefs for workforce planning.</td></tr>
<tr><td rowspan="2">Link the workforce plan to organizational goals
Workforce plans should be based on current data, identify goals and specify objectives required to achieve goals. Workforce data are integrated into the organization's decision-making process.
M.E.: Workforce plan is complete.
P.T.E.: Workforce plan is under development.
B.E.: Workforce plan has not been started.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: The State does not have a centralized workforce plan.

Making progress: CalTrans
Workforce plans are being aligned with management competencies and strategic objectives.</td></tr>
</table>

Personnel System – Based on a workforce plan, departments must be able to recruit and hire skilled workers needed to meet public needs.	Below Expectations	Progress Toward Expectations	Meets Expectations
Recruit effectively Recruitment strategy produces a large pool of qualified and diverse applicants for each open position. **M.E.:** Recruitment produces a quality applicant pool. Job descriptions and applications are accessible, specific and clear. Candidates understand application process. **P.T.E.:** Some recruitment efforts take place, but do not produce a qualified applicant pool. Applications are accessible to potential applicants, but job descriptions are vague and confusing. The hiring process is unnecessarily complicated. **B.E.:** Recruitment efforts are essentially nonexistent. The hiring process is confusing, job descriptions are vague, and applications are not readily available to potential applicants.	✓		
	Rationale: The State fails to recruit; hiring pools for management positions average just 13 candidates; and, the hiring process is nearly impenetrable. **Meets expectations**: **Bureau of State Audits.** The bureau actively participates in career fairs and visits college campuses to recruit potential job candidates. In 2004-05, recruitment efforts helped attract 624 applicants for 24 positions.		
Select strategically Selection process ensures that candidates are accurately assessed, the applicant pool is efficiently winnowed and the most qualified candidates are hired. **M.E.:** Positions are filled with the best people for the job. The interview and hiring processes are unambiguous and timely. Communication with candidates takes place throughout the selection process. Hiring flexibilities are employed and compensation packages are competitive. **P.T.E.:** Positions are filled with minimally qualified candidates. Some communication with candidates takes place throughout process. Hiring and compensation flexibilities are not fully leveraged. **B.E.:** Positions are unfilled, or filled with unqualified candidates. Selection process is unnecessarily complex and lengthy. No communication occurs with candidates throughout process. Hiring and compensation flexibilities do not exist or are not used.	✓		
	Rationale: The State fails to select strategically. The examination process is unreliable and the best candidates can go untapped. **Meets expectations: Bureau of State Audits.** Using a tiered selection process, and frequent communication with job candidates, the bureau efficiently reviews candidate qualifications to select the best applicants.		
Evaluate results Hiring officials routinely conduct post-hire interviews with successful and unsuccessful candidates. Performance assessments of new hires are conducted and data are used to evaluate the performance of recruitment, selection and hiring functions. **M.E.:** Recruitment, selection and hiring processes are continually evaluated. Changes are made to ensure goals are met. **P.T.E.:** Some evaluation of recruitment, selection and hiring processes occurs, but is not strategic. Improvements do not take place. **B.E.:** Recruitment, selection and hiring processes are not evaluated.	✓		
	Rationale: Some departments may assess hiring procedures better than others, but the State does not set enterprise-wide hiring standards, or routinely evaluate progress. In 2003, the State Personnel Board reviewed hiring procedures for the first time and found numerous deficiencies. But the State has not systematically implemented reforms to address those deficiencies.		

Retention – **To retain excellence, state leaders must track who is leaving the workforce and why, and make changes if appropriate.**	Below Expectations	Progress Toward Expectations	Meets Expectations
Track retention Employee satisfaction and turnover are monitored. Data are used to make workplace and management improvements. **M.E.:** Regular employee surveys and exit interviews are conducted and data are used to improve employee satisfaction and retention. Human resource management flexibilities are used effectively. **P.T.E.:** Data are not uniformly collected, or are not used to make improvements. Human resource management flexibilities are not fully utilized. **B.E.:** Employee satisfaction and turnover are not tracked. Human resource management flexibilities are nonexistent or are not used.	✓		
	Rationale: Some departments track employee satisfaction and conduct exit interviews, but the State does not have an enterprise-wide procedure for monitoring turnover. And even though the State Personnel Board is authorized to spearhead strategies to improve retention, that authority is not widely used.		
Assess compensation The components that make compensation competitive are understood. The adequacy of employee compensation is continually assessed. **M.E.:** Compensation packages are assessed and adjusted to achieve or maintain market competitiveness. **P.T.E.:** Compensation packages are regularly assessed but adequate adjustments are not made. **B.E.:** Compensation packages are not regularly assessed for market competitiveness.	✓		
	Rationale: The State does not regularly assess the competitiveness of compensation or employee needs. **Meeting Expectations: CalPERS** The executive compensation program at CalPERS includes base salary ranges based on marketplace salary surveys that are conducted every two years, along with other considerations.		
Ensure health and safety A safe work environment is guaranteed. **M.E.:** Potential hazards have been identified and corrected. Loss data is analyzed. Safety training is provided. Safety programs are up-to-date. **P.T.E.:** Workplace hazards are reacted to as they occur. Workforce receives minimal safety training. Safety programs are out-of-date. **B.E.:** Workplace hazards are ignored. Workers receive no safety training. Safety programs are not in place.			
	Rationale: The Commission has insufficient information to assess performance. **Meeting Expectations: CalTrans** The department actively documents hazards, provides job-specific safety training to each employee and issues biannual reports on safety.		

<table>
<tr><th>Training and Development – To ensure that the State will have a workforce capable of meeting future needs, state leaders must strategically equip employees with essential skills.</th><th>Below Expectations</th><th>Progress Toward Expectations</th><th>Meets Expectations</th></tr>
<tr><td rowspan="2">Formulate a training strategy
Data from assessment of current and future workforce needs are used to strategically align current and future needs with training investments.
M.E.: Training investments are strategic and meet current and future needs.
P.T.E.: Some strategic training takes place, but is not adequate to meet current and future needs.
B.E.: Training resources are not allocated strategically.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: The State does not have a strategic training initiative.
Meeting Expectations: Department of Social Services
The department has crafted a detailed professional management development program to enhance the leadership and management skills of employees. The program has been suspended due to budget cuts.</td></tr>
<tr><td rowspan="2">Invest in development
Training the workforce is a priority. Employees have the skills to meet organizational goals, are prepared to take on new responsibilities, and are capable of promoting into future vacancies.
M.E.: All employees have received appropriate training and have the necessary skills to do the job. Workforce capacities are aligned with current and future needs.
P.T.E.: Some employees have received appropriate training and have the necessary skills to do the job. Workforce capacities are not sufficient to meet current and future needs. Changes are made to improve programs accordingly.
B.E.: Employees have not been trained and do not have the necessary skills to do the job. Workforce capacities are deficient in meeting current and future needs.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: Workforce training is not a priority. Some departments do fund training programs, but in lean budget years, these programs are the first to go. Enterprise-wide, the State under invests in training.
Meeting Expectations. Department of Financial Institutions.
The department invests in a nationally recognized leadership training model, offers scholarships to support employee self-development and establishes training support teams for each employee.</td></tr>
<tr><td rowspan="2">Rate quality of training
Training programs are evaluated to determine whether they result in improved performance. Programs are improved accordingly.
M.E.: Programs are evaluated by surveying managers. Managers rate the utility of training and development programs as improving employee performance.
P.T.E.: Programs are evaluated by surveying managers. Managers rate the utility of training and development programs as somewhat improving performance. Changes are made to improve programs accordingly.
B.E.: Programs are not evaluated, or are evaluated inadequately.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: The State does not routinely evaluate the utility of its training investments.
Making Progress. Department of Financial Institutions.
Training participants actively evaluate training programs. The department is currently assessing its training evaluation strategy and proposing reforms.</td></tr>
</table>

<table>
<tr><th>Performance Management – Maximizing workforce productivity requires that state leaders motivate employees, differentiate based on performance, and manage with integrity.</th><th>Below Expectations</th><th>Progress Toward Expectations</th><th>Meets Expectations</th></tr>
<tr><td rowspan="2">Inspire excellence
Employees are motivated to make improvements, learn new skills and transfer to positions of higher responsibility. Management procedures are aligned with best practices to create an environment conducive to innovation and change.
M.E.: Employees are motivated to learn and apply new skills in current and potential future positions. Management procedures are assessed regularly and improvements are made, if needed.
P.T.E.: Employees are motivated to learn new skills but do not apply them to job responsibilities. Few employees are willing to promote. Regular assessment occurs, but improvements are not made.
B.E.: Employees are not motivated to learn new skills. Promotion opportunities are not available or employees are not willing to promote. Assessment of management policies is irregular or nonexistent.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: The State does not employ performance management strategies.

Meeting Expectations: Department of Parks and Recreation
Through an employee development program, the department invests in training and professional development to meet organizational goals and support individual employees. In 1997, the department received an award from the California Council for Excellence for its accomplishments.</td></tr>
<tr><td rowspan="2">Differentiate between performance levels
Employee performance is evaluated. Excellence is rewarded, and mediocre or poor performance carries consequences.
M.E.: Employee performance evaluations are conducted and recognition programs are used effectively.
P.T.E.: Some employee performance evaluations have been conducted. Recognition programs are sometimes used.
B.E.: Employee performance evaluations have not been conducted. Recognition programs are not used.</td><td>✓</td><td></td><td></td></tr>
<tr><td colspan="3">Rationale: Compensation and other rewards fail to distinguish based on performance. Recognition programs go unused.

Meeting Expectations: Department of Parks and Recreation
Employees are evaluated for their performance and their contributions to departmental goals.</td></tr>
<tr><td rowspan="2">Manage with integrity
Management policies and practices are scrutinized to ensure that they are applied fairly and consistently. Discrimination is prohibited and equal employment opportunity (EEO) and inclusion are championed. EEO compliance statistics are utilized to address deficiencies.
M.E.: Workforce is diverse. Policies are consistently applied and there are no EEO issues. Agency positions are upheld in employee grievances and EEO cases.
P.T.E.: Actions are being implemented to address inconsistent application of policy and EEO issues. Employee allegations are fully or partially upheld in employee grievances and EEO cases.
B.E.: Actions are not taken to address inconsistent application of policy or EEO issues. Employee allegations are upheld in employee grievances and EEO cases.</td><td></td><td>✓</td><td></td></tr>
<tr><td colspan="3">Rationale: The State has a diverse workforce and active EEO officials. But EEO compliance statistics are not widely publicized or used to demonstrate quality.</td></tr>
<tr><td colspan="4">The performance measures shown here are a compilation of measures developed by the following sources: Virginia's Governor's Management Standards Scorecard, HumRRO, Electronic Recruiting Exchange, Staffing.org, International Public Management Association for Human Resources, Partnership for Public Service, OnPerformance, Federal Office of Personnel Management.</td></tr>
</table>

Appendix & Notes

- ✓ ***Public Hearing Witnesses***
- ✓ ***Notes***

Appendix

Little Hoover Commission Public Hearing Witnesses

Witnesses Appearing at Little Hoover Commission Public Hearing on Management Workforce, June 24, 2004

Michael Navarro, Director
Department of Personnel Administration

Denzil Verardo, Ph.D., Chief Deputy Director (Retired)
Administrative Services
Department of Parks and Recreation

Carol D. Chesbrough, Chief Deputy Commissioner
Department of Financial Institutions

Joanne Corday Kozberg, Regent
University of California
former Secretary
State and Consumer Services Agency

Stephen Rhoads, former Executive Director
California Energy Commission

Witnesses Appearing at Little Hoover Commission Public Hearing on Management Workforce, August 26, 2004

J. Christopher Mihm, Managing Director
Strategic Issues
U.S. Government Accountability Office

Jeffrey C. Schutt, Director
Division of Human Resources
Colorado Department of Personnel & Administration

Chon Gutierrez, Co-Executive Director
California Performance Review

J. Clark Kelso, Director
Governmental Affairs Program and Capital Center for Government, Law & Policy
University of the Pacific McGeorge School of Law

Chester A. Newland, Duggan Distinguished Professor of Public Administration
School of Policy Planning and Development
University of Southern California, Sacramento Center

Notes

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3. The director of the Sacramento County Department of General Services earns $120,874 annually, and oversees a $147 million budget and 570 employees. County of Sacramento. "Final Budget 2004-2005." County of Sacramento. January 10, 2005. "Personnel Payroll System. Class Table by Job Title." See endnote 2. Bob Haagenson, Chief Administrative Officer, Department of Finance and Communications and Media Officer, Internal Services Agency, County of Sacramento. March 18, 2005. Personal communication. The director of the California Department of General Services earns $123,255 annually, and oversees a $931 million budget and 3,651 employees. State of California. 2005. "Schedule 6: Summary of State Population, Employees, and Expenditures." *Governor's Budget 2005-06*. Estimated 2004-05 figures. http://govbud.dof.ca.gov/. Accessed April 5, 2005. State of California. 2005. "State Agency Budgets." *Governor's Budget 2005-06*. Estimated 2004-05 figures. http://govbud.dof.ca.gov/. Accessed April 5, 2005. State of California. 2005. "Schedule 4: Personnel Years and Salary Cost Estimates." *Governor's Budget 2005-06*. Estimated 2004-05 figures. http://govbud.dof.ca.gov/. Accessed April 5, 2005. Department of Personnel Administration. 2004. "Exempt Salary Schedule." See endnote 2.

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